

**CHFFA HELP II PROGRAM  
EXECUTIVE SUMMARY**

<b>Applicant:</b>	Transitions – Mental Health Association (“Transitions”) 784 High St. San Luis Obispo, CA 93401 San Luis Obispo County	<b>Amount Requested:</b>	\$518,000
		<b>Requested Loan Term:</b>	15 year fixed
		<b>Authority Meeting Date:</b>	Jan. 26, 2012
		<b>Resolution Number:</b>	HII-267
<b>Project Site:</b>	1511 Osos Street, San Luis Obispo, CA 93401, San Luis Obispo County		
<b>Facility Type:</b>	Adult Transitional Program		
<b>Eligibility:</b>	A qualified health facility, pursuant to Government Code section 15432(d).		
<b>Prior HELP II Borrower:</b>	Yes, in 2000 (\$122,347 amount outstanding and the payments are current).		

**Background:** Transitions-Mental Health Association, established in 1980, is a non-profit organization dedicated to eliminating stigma while promoting recovery and wellness for people with mental illness through work, housing, community and family support services. Transitions’ facilities are mental illness rehabilitation facilities which help children and adults live, work, and grow in the community. Transitions operates 27 programs at over 35 locations and provides services to over 8,000 clients in the San Luis Obispo and Santa Barbara counties.

**Uses of Loan Proceeds:** Loan proceeds will be used to refinance an existing loan that carries a 6.5% fixed interest rate through 2015 that then becomes a variable rate thereafter. The current outstanding loan balance is approximately \$526,068. The refinancing of this loan will reduce the fixed interest rate from 6.5% to 3%, resulting in total interest savings of approximately \$168,000, convert the loan to a fixed interest rate instead of a variable rate that will adjust in 2015 and will also allow the borrower to avoid a balloon payment of approximately \$424,000 due in 2020.

**Financing Structure:**

- 180 equal monthly payments of approximately \$3,578 (yearly payments of approximately \$42,936).
- First (1st) lien position on the property located at 1511 Osos St., San Luis Obispo, CA 93401.
- Loan to value ratio not to exceed 95% (actual loan to value ratio of 93%, based on appraisal).
- Verification of the borrower funds of approximately \$19,000 to pay-off the remaining balance of the Founders Community Bank Loan.
- Corporate gross revenue pledge.

**Financial Overview:** Transitions’ income statement appears to exhibit continued revenue growth and solid operations over the review period. The balance sheet also appears to be solid with an operating proforma debt service coverage ratio of 2.39x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 518,000	Refinance	\$ 526,068
Borrower funds	18,893	Financing costs	10,825
<b>Total Estimated Sources</b>	<u>\$ 536,893</u>	<b>Total Estimated Uses</b>	<u>\$ 536,893</u>

**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:** *(Included for the purpose of discerning conflicts of interest)*

First American Title Company                      Founders Community Bank  
First American Trust, Federal Savings Bank

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-267 for Transitions – Mental Health Association in an amount not to exceed \$518,000 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:**

Transitions plans to refinance an existing loan with a fixed rate of 6.5% through 2015, which is then set to convert to a variable rate loan based on the Wall Street Journal Prime Rate plus a margin of 2%. The new HELP II loan will lower the interest rate from 6.5% to a 3% and, avoid a balloon payment of approximately \$424,000 due in 2020. This refinancing will result in a total interest savings of approximately \$168,000 over the life of the loan based on an assumption of a 6.5% interest rate throughout the life of the loan. With the savings, Transitions' management indicates it should be able to increase some of its services, including transportation to medical appointments and improved case management and maintenance of the facilities.

***Refinance loan with Founders Community Bank*..... \$ 526,068**

Transitions intends to refinance an existing mortgage loan of \$526,068 with Founders Community Bank ("FCB"). The original loan with FCB in the amount of \$541,500 was obtained in April 2010. This loan was used to refinance a loan that was originated to purchase the facility located on 1511 Osos Street, San Luis Obispo, CA 93401, which was purchased in 1999 for \$280,000. In 2003, Transitions remodeled the house and added numerous bathrooms. Additional proceeds from the refinance were used for capital improvements to convert a building located at 784 High Street from retail to office space, which is currently used as its administration building.

The new HELP II loan will be secured by the real property located at 1511 Osos Street, San Luis Obispo, CA 93401. On October 25, 2011, the property was appraised at \$554,500. The property includes a 2,660 square foot building on a 5,500 square foot lot. The facility has seven bedrooms and four and a half bathrooms, and currently houses 12 psychiatrically disabled adults/clients.

This facility is used to provide client housing for Transitions' Adult Transitional Program, which provides a 24-hour staffed environment in which clients are supported in their efforts to acquire and apply interpersonal and independent living skills.

***Financing Costs* ..... 10,825**

Authority Fees ..... \$6,475  
Title and Escrow..... 4,350

***Estimated Uses of Funds* ..... \$ 536,893**

## II. FINANCIAL STATEMENTS AND ANALYSIS

### Transitions - Mental Health Association Statement of Activities (Unrestricted)

	For the Year Ended June 30,		
	2011	2010	2009
<b>Revenues, Gains, and Other Support</b>			
Grants and contracts	\$ 7,365,262	\$ 7,319,699	\$ 6,538,537
Gross profit from product sales	104,472	126,399	133,534
Donations and fundraising	146,770	90,783	121,968
Investment income, interest	3,579	1,895	13,234
Rental income	550,014	555,091	495,401
Other	948,001	577,335	102,470
Total revenues, gains, and other support*	9,118,098	8,671,202	7,405,144
<b>Expenses and losses</b>			
Salaries and wages	\$ 4,713,807	\$ 4,312,127	\$ 3,933,838
Rent	1,118,017	1,036,759	1,023,532
Employee benefits	565,828	449,561	408,881
Employer taxes	433,126	381,854	340,729
Repairs and maintenance	339,278	219,730	158,143
Supplies	271,731	325,848	287,378
Transportation	237,705	238,296	200,908
Depreciation	170,399	160,249	116,971
Utilities	119,177	113,771	111,589
Travel and training	118,441	107,897	70,182
Professional fees	107,343	110,419	88,366
Capital purchases	100,427	238,315	75,138
Worker's compensation insurance	82,962	86,620	112,439
Insurance	61,993	67,460	72,344
Telephone	59,337	64,877	58,744
Fundraising	51,886	26,909	58,263
Dues and subscriptions	43,989	24,810	29,107
Advertising	21,912	34,228	46,669
Taxes and licenses	5,421	3,775	303
Other	169,076	171,066	59,484
Total Expenses	8,791,855	8,174,571	7,253,008
<b>Change in unrestricted net assets</b>	326,243	496,631	152,136
Total adjustments to unrestricted net assets	303,849	13,053	(45,542)
Unrestricted net assets, beginning of year	3,517,987	3,008,303	2,901,709
Unrestricted net assets, end of year	\$ 4,148,079	\$ 3,517,987	\$ 3,008,303

* Payor Source	Percent
Grants and contracts	80.78
Other	10.40
Rental income	6.03
Donations and fundraising	1.60
Profit from product sales	1.15
Investment income	0.04
<b>Total</b>	<b>100</b>

**Transitions - Mental Health Association**  
**Statement of Financial Position**

	As of June 30,		
	2011	2010	2009
<b>ASSETS:</b>			
Current Assets:			
Cash and cash equivalents	\$ 187,104	\$ 475,779	\$ 406,837
Accounts receivable	16,993	18,306	28,236
Grants receivable	890,817	969,584	1,032,650
Inventory	98,555	102,250	80,248
Prepaid expenses	56,922	59,455	61,041
Total current assets	<u>1,250,391</u>	<u>1,625,374</u>	<u>1,609,012</u>
Property and equipment, net	7,128,215	6,361,569	3,445,207
Deposits	49,006	64,368	73,006
Total assets	<u>\$ 8,427,612</u>	<u>\$ 8,051,311</u>	<u>\$ 5,127,225</u>
<b>LIABILITIES AND NET ASSETS:</b>			
Current Liabilities:			
Current portion - notes payable	\$ 95,132	\$ 90,298	\$ 96,883
Current portion - capital lease payable	19,573	17,855	16,751
Accounts payable and accrued expenses	560,220	600,410	430,019
Due to funder	239,104	126,073	25,000
Client deposits	39,617	32,854	33,109
Refundable advances	110,378	207,912	5,226
Total current liabilities	<u>1,064,024</u>	<u>1,075,402</u>	<u>606,988</u>
Notes payable, less current portion	3,204,012	3,418,636	1,454,788
Capital lease payable	11,497	39,286	57,146
<b>NET ASSETS:</b>			
Unrestricted	<u>4,148,079</u>	<u>3,517,987</u>	<u>3,008,303</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 8,427,612</u>	<u>\$ 8,051,311</u>	<u>\$ 5,127,225</u>

Financial Ratios:	Proforma <sup>(a)</sup>			
	<u>FYE June 30, 2011</u>			
Debt service coverage - Operating (x)	2.39	2.38	3.63	1.88
Debt service coverage - Net (x)	3.48	3.47	3.70	1.64
Debt/Unrestricted Net Assets (x)	0.80	0.80	1.01	0.54
Margin (%)		3.58	5.73	2.05
Current Ratio (x)		1.18	1.51	2.65

<sup>(a)</sup> Recalculates FY 2011 audited results to include the impact of this proposed financing.

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

**Transitions’ income statement appears to exhibit continued revenue growth and solid operations over the review period.**

During the review period, Transitions experienced solid operating margins of 2.05% in FY 2009, 5.73% in FY 2010, and 3.58% in FY 2011. Transitions’ total revenues increased by approximately 23% over the review period from \$7.4 million in FY 2009 to \$9.1 million in FY 2011, showing continuous growth in revenue, which Transitions attributes to an expansion of services related to its housing programs.

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

- More specifically, Transitions’ revenue has increased due to increasing its housing facility purchases resulting in increased rent revenues. According to Transitions’ management, they are committed to expanding housing and will continue to purchase properties for long-term client stability. Also, Mental Health Services Act (“MHSA”)<sup>1</sup> funding has increased over the last two fiscal years, which has allowed Transitions to offer new programs to its clients.
- According to Transitions’ management, most of its revenue is derived from stable sources including County Core programs and MHSA funding<sup>2</sup> which makes up approximately 75% of its operating revenue. Management expects these funding sources to continue into the foreseeable future. Transitions’ management maintains strong relationships with both San Luis Obispo and Santa Barbara counties and expects the relationships with the counties to continue in the future. Transitions’ management also believes that its revenues should remain stable in the upcoming years.
- In FY 2011, Other Revenue increased significantly, mostly due to an approximate \$288,000 grant received from the City of San Luis Obispo to purchase two condominiums to serve its expanding client base.
- According to Transitions’ management, salaries and wages have increased due to the hiring of new staff. In the last two years, Transitions has been able to fill numerous vacant positions that were hard to fill due to hiring difficulties. Also, in order to be competitive in the job market and maintain staff, Transitions is continuing to provide its employees a cost of living adjustment.

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<sup>1</sup> Mental Health Services Act (MHSA) was adopted by Proposition 63 and provides the opportunity for the California Department of Mental Health (DMH) to provide increased funding, personnel and other resources to support county mental health programs and monitor progress toward statewide goals for children, transition age youth, adults, older adults and families. Proposition 63 was a California ballot proposition, which passed on the November 2, 2004 ballot. Its official name and title on the ballot was the Mental Health Services Act.

<sup>2</sup> Both Core Programs and MHSA funding are included in grants and contracts revenue in the income statement.

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

**Transitions' balance sheet appears to be solid with an operating proforma debt service coverage ratio of 2.39x.**

Transitions appears to have a solid balance sheet with unrestricted net assets growing by approximately 40% from \$3 million in FY 2009 to nearly \$4.2 million in FY 2011. According to Transitions' management, the increase in unrestricted net assets can be primarily attributed to the overall expansion of programs through acquisition of housing facilities.

Transitions' proforma debt-to-unrestricted net assets ratio appears to be an acceptable level of .80x, while it maintains adequate liquidity with a current ratio of 1.18x. The existing operating debt service coverage ratio appears to be 2.38x, and the operating proforma debt service coverage ratio appears to slightly improve to 2.39x, indicating Transitions should likely be able to repay the HELP II loan.

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

- In FY 2011, Transitions' management reported a decrease in cash and cash equivalents to approximately \$187,000 in FY 2011 from \$406,000 in FY 2009, which was mainly due to the purchase of property using cash in anticipation of receiving a one-time MHSA housing grant that Transitions has been awarded but not yet received. Also, Transitions' management attributes the decrease of cash to the grant cycle. It is customary for cash to decline at the end of fiscal year, thus cash on hand is at its lowest while grant receivables is at its highest. Transitions has an approved line of credit to cover any short-term financing needs.
- Over the review period, grants receivable have decreased because funders, such as San Luis Obispo County, have upgraded its procedures to pay on a more consistent basis according to Transitions' management.
- Property and equipment increased over the review period from \$3.4 million in FY 2009 to \$7.1 million in FY 2011, due to the purchase of several buildings. The purchases include an administrative building and three housing facilities. Transitions was able to secure funds from the San Luis Obispo County Community Development Block Grant to purchase two of the three housing facilities. The remaining housing facility was purchased with cash.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

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

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Totals</b>	8,394	6,422	5,536

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

<b>Description/Date Issued</b>	<b>Original Amount</b>	<b>Amount Outstanding <sup>(a)</sup> As of June 30, 2011</b>	<b>Estimated Amount Outstanding after Proposed Financing</b>
<b>Existing Long-Term Debt:</b>			
-Rabobank note payable (7/1/ 2010)	\$175,000	\$168,445	\$168,445
-CHFFA Help II Loan (12/31/2000)	400,000	134,538	134,538
-Founders Community Bank note payable (4/14/2010)	541,500	528,360	---
-Santa Barbara Bank & Trust note payable (4/10/2003)	266,000	217,104	217,104
-Santa Barbara Bank & Trust note payable (8/7/2007)	435,000	412,554	412,554
-Rabobank note payable (7/1/2010)	1,612,500	1,588,143	1,588,143
-Santa Barbara County <sup>(b)</sup>	250,000	250,000	250,000
<b>Proposed New Debt:</b>			
- CHFFA HELP II Loan, 2012		N/A	<b>518,000</b>
<b>TOTAL DEBT</b>		<b>\$3,299,144</b>	<b>\$3,288,784</b>

<sup>(a)</sup> Includes current portion of long-term debt.

<sup>(b)</sup> Transitions has a contract with Santa Barbara County to help operate Transitions' Supportive Housing Initiative Act (SHIA) Program. Transitions must provide bed space for their clients for a period of 30 years. There are no principal nor interest payments made to the county unless the contract is broken. After 30 years, the debt will be forgiven.



## **EXHIBIT 3**

### **BACKGROUND AND LICENSURE**

#### **Background**

Transitions, established in 1980, is a non-profit organization dedicated to eliminating stigma while promoting recovery and wellness for people with mental illness through work, housing, community and family support services. Transitions' facilities are mental illness rehabilitation facilities which help children and adults live, work and grow in the community. Transitions' operates 27 programs at over 35 locations and provides services to over 8,000 clients in the San Luis Obispo and Santa Barbara counties. Transitions currently owns 13 facilities and rents another 23 facilities.

The focus of Transitions' many services is to teach vital independent living skills and build a framework for community re-entry through personal empowerment and hands on experience. For over 30 years, Transitions has been providing housing, employment, case management and life-skills support to teens and adults with mental illness; and support, resources and education for their loved ones. Transitions works towards reducing the stigma of mental illnesses, maximizing personal potential and providing innovative mental health services to individuals and families in need. Transitions offers a full spectrum of programs in both San Luis Obispo and Northern Santa Barbara Counties. The numerous programs provided by Transitions can be divided into the following set of programs: Housing Programs, Family Services Programs, Community Programs, and Employment Programs.

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

Transitions-Mental Health Association is certified by the State of California Department of Mental Health to operate and maintain a Transitional Residential Treatment Program, which is located at 1511 Osos Street, San Luis Obispo, CA 93401.

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**Resolution Number HII-267**

**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 make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority has previously established a HELP II Program to make loans to finance or refinance, among other things, all or a portion of the cost of acquiring certain equipment or constructing certain capital improvements (the “Project”) as authorized by the Act;

WHEREAS, **Transitions – Mental Health Association** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan for the financing of the Project, and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

WHEREAS, final 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 the amount of **\$518,000** for a term not to exceed **15 years** to refinance an existing loan as described in the application filed with the Authority, but solely to the extent there are available proceeds of the HELP II Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year fixed rate loan;
2. First (1st) lien position on property located at 1511 Osos St., San Luis Obispo, California 93401;
3. Loan to value ratio not to exceed 95%;
4. Verification of the borrower funds to pay-off the remaining balance of the Founders Community Bank Loan; and
5. Corporate gross revenue pledge.

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 approved pursuant to Section 1 hereof, 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 loan may 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). 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, or that the Executive Director determines shall be funded from the HELP II Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant 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 HELP II Program fund not to exceed those amounts approved by the Authority for the Borrower in Section 1. 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 Authority hereby finds that the loan approved in Section 1 is for a Project eligible for financing pursuant to provisions of the Act.

Section 5. The Executive Director of the Authority is hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they deem 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 6. This resolution expires one year from the date approved.

Date Approved: \_\_\_\_\_