

**CHFFA HELP II LOAN PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Family Care Network, Inc. (“FCNI”) 1255 Kendall Road San Luis Obispo, CA 93401 San Luis Obispo County</p> <p><b>Project Site:</b> 1255 Kendall Road, San Luis Obispo, CA 93401 (San Luis Obispo County)</p> <p><b>Facility Type:</b> Community Mental Health</p> <p><b>Eligibility:</b> A community mental health center pursuant to Government Code section 15432(d)(16)</p> <p><b>Prior HELP II Borrower:</b> No</p>	<p><b>Amount Requested:</b> \$1,300,000</p> <p><b>Loan Term:</b> 20-year fixed</p> <p><b>Authority Meeting Date:</b> February 25, 2016</p> <p><b>Resolution Number:</b> HII-297</p>
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**Background:** Founded in 1987, FCNI is a children and families services provider creating a family-centered treatment program as an alternative to group home or institutional care. Since its inception, the agency’s programs have grown to annually serve between 1,400 and 1,700 children, youth, and families impacted by trauma living in San Luis Obispo and Santa Barbara counties. FCNI partners with San Luis Obispo County Behavioral Health to provide mental health services to under-served children and youth. FCNI also provides short-term, one-on-one behavioral counseling intervention for children and youth as part of its Therapeutic Behavioral Services Program. In FY 2015, FCNI served 1,420 clients through 120,000 patient visits.

**Uses of Loan Proceeds:** The HELP II loan proceeds will be used to complete the construction of FCNI’s facility located at 1255 Kendall Road, San Luis Obispo, CA 93401. FCNI will construct approximately 4,000 square feet of office space, a 2,400 square foot storage facility, add an additional 17 parking spaces, and add solar panels to the building.

**Financing Structure:**

- 20-year, two percent (2%) fixed rate for renovations.
- 240 equal monthly payments of approximately \$6,576 (annual payments of approximately \$78,918).
- Corporate gross revenue pledge.
- Current appraisal of the property located at 1255 Kendall Road to be received prior to closing the loan.
- Second (2<sup>nd</sup>) lien position on the property located at 1255 Kendall Road, San Luis Obispo, CA 93401 (Chase Bank currently holds a 1<sup>st</sup> lien position securing a \$3.3 million loan).
- Executed construction contract for renovations.
- Verification of Borrower’s funds to close escrow.
- Combined loan-to-value ratio not to exceed 95% (estimated combined loan-to-value ratio of 95%).

**Financial Overview:** FCNI’s income statement appears to exhibit solid operating results with increasing unrestricted net assets each year. FCNI’s balance sheet appears to demonstrate a strong ability to repay its debt with a pro-forma debt service coverage ratio of 2.1x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 1,300,000	Renovations	\$ 1,300,000
Borrower funds	72,250	Equipment	54,000
		Financing costs	18,250
<b>Total Estimated Sources</b>	<b>\$ 1,372,250</b>	<b>Total Estimated Uses</b>	<b>\$ 1,372,250</b>

**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:** Fidelity National Title Company.

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-297 for Family Care Network, Inc. in an amount not to exceed \$1,300,000 for a term not to exceed 20 years for renovations, contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with staff recommendations.

**I. PURPOSE OF FINANCING:**

In 2013, FCNI constructed its current 26,000 square foot facility located at 1255 Kendall Road in San Luis Obispo, which is used as its direct service and administration facility. During initial construction, certain portions of the facility were partially completed with the intent to finish construction as the space was needed. With continued program growth, FCNI now requires the completion of the unfinished portion of its facility in order to expand its current clinical services. FCNI's staff has recently increased from approximately 160 to 180 employees in order to sustain program growth, which includes school-based mental health services, educational support services, and family support services. Additionally, in FY 2016, FCNI anticipates further expansion of several programs, including wraparound services, family-based therapeutic services, and children's mental health services.

**Construction/Renovation..... \$1,300,000**

FCNI's plans to construct approximately 4,000 square feet of office space, a 2,400 square foot storage facility, add an additional 17 parking spaces, and add solar panels to the building to reduce monthly utility expenses by nearly \$4,000. When completed, the second floor of the building will include seven offices, two storage rooms, two meeting rooms, two bathrooms, and an open area for eighteen cubicles. FCNI anticipates beginning construction in April 2016 and completing the project in July 2016. Prevailing wage will be paid and included in the construction contract.

The HELP II loan will be secured by a second (2<sup>nd</sup>) lien position on the property located at 1255 Kendall Road, San Luis Obispo, CA 93401. The first (1<sup>st</sup>) lien position on the property is currently secured by a commercial loan through Chase Bank, which has an outstanding balance of approximately \$3.3 million as of June 30, 2015. According to FCNI, the estimated the value of the property is over \$4.8 million leading to a combined loan to value of approximately 95%. A current appraisal of the property will be required prior to closing.

**Equipment..... 54,000**

FCNI will contribute its own funds to the overall project for the purchase of furniture and equipment to complete the new clinical services area, including 18 furnished cubicles, office furnishings for seven offices, 25 new computers, and miscellaneous office furnishings.

**Financing Costs ..... 18,250**

Authority Fees..... \$16,250

Title and Escrow Fees..... 2,000

**Total Uses of Funds..... \$1,372,250**

**FINANCIAL STATEMENTS AND ANALYSIS****Family Care Network, Inc.****Statement of Activities****(Unrestricted)**

	<b>For the year ended June 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Revenues:*</b>			
Resource family services	\$ 2,648,342	\$ 2,381,728	\$ 2,483,719
Family support services	7,407,697	7,323,394	6,846,957
Transitional aged youth services	1,429,503	1,954,004	2,174,482
Prevention and school based service	-	631,944	446,308
Educational support services	1,301,327	-	-
Miscellaneous programs	26,083	25,140	101,939
Donations and fundraising	313,562	372,866	611,401
Total revenue	<u>13,126,514</u>	<u>12,689,076</u>	<u>12,664,806</u>
<b>Expenses:</b>			
Administration	-	91,228	73,421
Advertising	15,827	16,087	16,576
Audit expense	24,201	17,750	20,251
Bad debt expense	993	-	268
Bank charges	31	-	329
Conferences and meetings	56,077	56,054	43,205
Consultants	35,091	43,617	59,177
Cost of materials sold	28,512	23,232	17,116
Depreciation	341,515	258,061	194,130
Employee benefits	835,530	719,350	651,917
Equipment expense	204,247	183,626	218,442
Loss on sale of assets	-	3,765	-
Foster care expense	1,128,125	1,229,586	1,221,504
Insurance	110,873	103,279	100,574
Interest	202,951	122,618	7,023
Legal	-	801	6,616
Maintenance	142,596	162,256	131,728
Memberships	32,462	31,223	22,923
Miscellaneous	105,478	647,524	647,921
Other client costs	774,234	-	-
Payroll	7,405,804	7,388,692	7,145,778
Payroll taxes	538,921	510,901	556,649

**Continued**

Postage	4,663	7,763	6,711
Printing and publications	255	3,252	735
Rent	82,849	166,598	340,380
Supplies	15,361	16,516	17,216
Telephone and data	94,446	97,979	87,548
Utilities	98,803	94,867	81,255
Vehicle operating expense	490,347	521,709	523,334
Workers' compensation expense	82,429	136,810	89,016
Total expenses	<u>12,852,621</u>	<u>12,655,144</u>	<u>12,281,743</u>
Change in unrestricted net assets	273,893	33,932	383,063
Investment income	<u>3,057</u>	<u>1,364</u>	<u>4,613</u>
Net Income	276,950	35,296	387,676
Amounts released from restrictions	<u>25,000</u>	<u>137,500</u>	<u>137,500</u>
<b>Unrestricted net assets, beginning of year</b>	<u>2,827,610</u>	<u>2,654,814</u>	<u>2,129,638</u>
<b>Unrestricted net assets, end of year</b>	<u>\$ 3,129,560</u>	<u>\$ 2,827,610</u>	<u>\$ 2,654,814</u>

**\*Revenue for FYE June 30, 2015**

<u>Payor Source</u>	<u>Percent</u>
Department of Social Services Contracts	58
Medi-Cal	31
Grants	9
Other	2
Total	100

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**Family Care Network, Inc.**  
**Statement of Financial Position**

<b>Assets</b>	<b>As of June 30,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Current assets:</b>			
Cash and equivalents	\$ 1,924,328	\$ 2,340,293	\$ 2,047,500
Certificates of deposit	1,243,293	498,018	497,798
Accounts receivable	495,793	682,305	1,100,617
Grants receivable	-	56,000	50,000
Bequest receivable	-	-	209,841
Prepaid expenses	131,083	128,805	108,775
<b>Total current assets</b>	<b>3,794,497</b>	<b>3,705,421</b>	<b>4,014,531</b>
<b>Property and equipment:</b>			
Property and equipment	11,748,168	10,058,827	7,863,136
Accumulated depreciation	(1,432,623)	(1,144,957)	(903,351)
<b>Property and equipment, net of accumulated depreciation</b>	<b>10,315,545</b>	<b>8,913,870</b>	<b>6,959,785</b>
<b>Other assets:</b>			
Miscellaneous deposits	13,178	10,414	30,834
<b>Total assets</b>	<b>\$ 14,123,220</b>	<b>\$ 12,629,705</b>	<b>\$ 11,005,150</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued expenses	\$ 298,878	\$ 256,919	\$ 836,088
Payroll taxes payable	5,460	23,798	27,183
Salaries and wages payable	315,456	283,230	282,542
Paid time off payable	289,483	241,185	254,859
Contracts and grants refundable advances	1,811,352	1,853,965	1,613,811
Notes payable, current portion	114,351	107,635	75,321
<b>Total current liabilities</b>	<b>2,834,980</b>	<b>2,766,732</b>	<b>3,089,804</b>
<b>Long-term liabilities:</b>			
Notes payable, net of current portion	3,367,013	3,476,365	1,620,034
<b>Total liabilities</b>	<b>6,201,993</b>	<b>6,243,097</b>	<b>4,709,838</b>
<b>Net assets</b>			
<b>Unrestricted:</b>			
Designated for economic uncertainty	-	-	300,000
Designated for facilities	-	-	500,000
Undesignated	3,129,560	2,827,610	1,854,814
Temporarily restricted	4,791,667	3,558,998	3,640,498
<b>Total net assets</b>	<b>7,921,227</b>	<b>6,386,608</b>	<b>6,295,312</b>
<b>Total liabilities &amp; net assets</b>	<b>\$ 14,123,220</b>	<b>\$ 12,629,705</b>	<b>\$ 11,005,150</b>

**Financial Ratios:**

	<b>Proforma (a)</b>			
	<b><u>FYE June 30, 2015</u></b>			
Debt Service Coverage - Net (x)	<b>2.17</b>	<b>2.73</b>	<b>2.80</b>	<b>40.75</b>
Debt/Unrestricted Net Assets (x)	<b>1.53</b>	<b>1.11</b>	<b>1.27</b>	<b>0.64</b>
Margin (%)	<b>2.30</b>	<b>1.35</b>	<b>1.35</b>	<b>4.10</b>
Current Ratio (x)	<b>1.34</b>	<b>1.34</b>	<b>1.34</b>	<b>1.30</b>

(a) Recalculates FY2015 audited results to include the impact of this proposed financing

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

**FCNI's income statement appears to exhibit solid operating results with increasing unrestricted net assets each fiscal year of the review period.**

FCNI's operating income displayed annual increases although the amount of increase fluctuated significantly from year to year. Income from operations was approximately \$383,000 in FY 2013, approximately \$34,000 in FY 2014, and then approximately \$274,000 in FY 2015. According to FCNI's management, the slowed growth in FY 2014 was due to a drop of about 3% in services at its Santa Barbara County location. FCNI's FY 2015 total revenue displayed improved gains as income from resource family services greatly improved by 11.2% in FY 2015, increasing from approximately \$2.38 million in FY 2014 to approximately \$2.65 million in FY 2015. FCNI also introduced a new educational support services program with San Luis Obispo County in FY 2015, which contributed approximately \$1.3 million to total revenues. FCNI's management also noted the significant revenue growth in FY 2015 was a result of increased services at its San Luis Obispo location of approximately 6%.

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

- Transitional aged youth services declined in each of the three years, from approximately \$2.2 million in FY 2013 to approximately \$2 million in FY 2014 and then to approximately \$1.4 million in FY 2015. According to FCNI's management, the State changed its rate structure for transitional aged youth programs causing some of FCNI's youth to be reclassified into a lower reimbursement rate program, which then led to the decrease in revenue in FY 2014. In FY 2015, FCNI reclassified two programs from the Transitional Aged Youth division to the new Education Services division. This transfer moved about \$600,000 previously reported in the Transitional Aged Youth division into the Educational Support Services division.
- Payroll, FCNI's greatest expense, grew a modest 3.6% over the review period. Payroll was approximately \$7.15 million, \$7.39 million, and \$7.41 million in FYs 2013, 2014, and 2015, respectively. According to FCNI management, due to county contract freezes in FYs 2014 and 2015, FCNI limited annual employee pay increases to about 2%. In FY 2015, FCNI also experienced some temporary payroll decreases due to leaves of absences and turnover. Beginning in July 2015, with contract freezes removed, FCNI increased pay scales in order to be more competitive with similar agencies in its industry.
- Employee benefits increased 10.3% in FY 2014 and 16.2% in FY 2015, from approximately \$652,000 in FY 2013 to approximately \$719,000 in FY 2014, and then to approximately \$836,000 in FY 2015. According to FCNI management, due to increased employee participation in the retirement program, FCNI's employee retirement match contribution increased approximately \$20,000 in FY 2014 and approximately \$23,000 in FY 2015. Also, FCNI's health insurance costs increased approximately \$47,000 and \$94,000 in FYs 2014 and 2015, respectively. According to FCNI's management, its insurance carrier increased premiums 9% in FY 2014 and then 11% in FY 2015. FCNI also increased its employer contribution of dependents coverage from 50% to 60% beginning in FY 2015 to keep insurance affordable for staff.

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

**FCNI's balance sheet appears to demonstrate a strong ability to repay its debt with a pro-forma debt service coverage ratio of 2.17x.**

FCNI's balance sheet appears to display consistent growth in total assets, from approximately \$11 million in FY 2013 to approximately \$12.6 million in FY 2014, and then to approximately \$14.1 million in FY 2015. In FY 2014, property and equipment contributed significantly to the increase in total assets with the completion of the Kendall Road construction project. Property and equipment increased from approximately \$7.9 million in FY 2013 to approximately \$10.1 million in FY 2014. The Kendall Road construction project also significantly increased FCNI's long-term liabilities as notes payable increased from approximately \$1.6 million in FY 2013 to approximately \$3.5 million in FY 2014. FCNI has continually demonstrated a strong debt service coverage ratio of 40.75x in FY 2013, 2.80x in FY 2014, and 2.73x in FY 2015. With the additional debt, FCNI's proforma FY 2015 debt service coverage ratio decreases to a strong 2.17x.

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

- Cash and equivalents fluctuated from approximately \$2 million in FY 2013 up to approximately \$2.3 million in FY 2014, and then down to approximately \$1.9 million in FY 2015. According to FCNI's management, fluctuations in cash and equivalents are a result of various activities, but the notable decrease in FY 2015 was mainly due to FCNI purchasing certificates of deposit (CD's).
- Certificates of deposit remained relatively flat at nearly \$500,000 in FY 2013 and FY 2014, but then grew to approximately \$1.2 million in FY 2015, nearly a 150% increase from FY 2014. According to FCNI's management, FCNI regularly purchases federally insured bank CD's with excess cash. Due to new office construction in FY 2013 and the fluctuations with county contracts in FY 2014, CD balances were kept at a minimum level. With stronger earnings in FY 2015, FCNI increased investments in CD's by approximately \$700,000.
- Accounts payable and accrued expenses decreased significantly from approximately \$836,000 in FY 2013 to approximately \$257,000 in FY 2014, but then slightly increased to approximately \$299,000 in FY 2015. According to FCNI's management, the large accounts payable balance at June 30, 2013 was due to architect fees of approximately \$400,000 and contract advances payables of about \$100,000.
- Temporarily restricted net assets exhibited gains from approximately \$3.6 million in FY 2013 to approximately \$4.8 million in FY 2015. According to FCNI's management, the increase in Temporarily Restricted Net Assets in FY 2015 was a result of a \$1.2 M temporarily restricted grant from the Department of Social Services for a low income housing acquisition. FCNI also noted that eight apartment complexes for transitional youth or homeless were purchased with temporarily restricted grants, which totaled approximately \$4.8 million as of June 30, 2015. The majority of the property restrictions are scheduled to be relieved over the next 20 years, with approximately \$3.2 million forgiven on or before the end of FY 2022. As the restrictions are relieved, the original grant amounts will be reclassified from Temporarily Restricted Net Assets to Unrestricted Net Assets, improving FCNI's debt to net assets ratio.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

**Clients Served / (Patient Visits)**

**Family Care Network, Inc.  
Fiscal Year Ended June 30,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Totals</b>	1,420 / (120,000)	1,577 / (120,000)	1,554 / (120,000)



**EXHIBIT 2**

**OUTSTANDING DEBT**

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding<sup>(a)</sup> As of June 30, 2015</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>-EXISTING LONG-TERM DEBT:</b>			
Note Payable <sup>(b)</sup> March 2005	\$ 283,300	\$ 153,763	\$ 153,763
Note Payable January 2014	3,472,500	3,327,601	3,327,601
<b>-PROPOSED NEW DEBT:</b>			
CHFFA HELP II Loan, 2016		-	1,300,000
<b>-TOTAL DEBT</b>		<u><u>\$ 3,327,601</u></u>	<u><u>\$ 4,627,601</u></u>

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

<sup>(b)</sup> Note was refinanced August 2015 and has a balance of approximately \$150,000 as of December 31, 2015

## **EXHIBIT 3**

### **BACKGROUND AND LICENSURE**

#### **Background**

Founded in 1987, FCNI is a 501(c)(3) nonprofit, private children and families services provider with the primary motive to create a family-centered treatment program as an alternative to group home or institutional care for high-needs children and youth. Since its inception, the agency's programs have grown to annually serve between 1,500 and 1,700 children, youth, and families impacted by trauma living in San Luis Obispo and Santa Barbara counties. FCNI's support programs are designed to meet the needs of school-aged children and youth in order to help them overcome obstacles to achieve their academic and career goals, become self-sufficient, and secure permanency in all aspects of their lives.

In partnership with San Luis Obispo County Behavioral Health, FCNI provides mental health services to under-served children and youth. FCNI also provides short-term, one-on-one behavioral counseling intervention for children and youth as part of its Therapeutic Behavioral Services Program.

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

FCNI is certified as a community mental health center by the San Luis Obispo County Behavioral Health ("County"). FCNI provides mental health services to under-served children and youth under the County contract. FCNI is nationally accredited by The Joint Commission, and is an accredited member of the California Alliance of Child and Family Services.

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Loan Program**

**Resolution Number HII-297**

**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, **Family Care Network, Inc.** (the “Borrower”), a California nonprofit corporation and 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 **\$1,300,000** for a term not to exceed **20 years** for the purpose of renovations as 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. 20-year, two percent (2%) fixed rate for renovations;
2. Second (2<sup>nd</sup>) lien position on property located at 1255 Kendall Road, San Luis Obispo, CA 93401;
3. Combined loan to value ratio not to exceed 95%;
4. Executed construction contract for renovations;
5. A current appraisal that is acceptable to Authority staff;
6. Corporate gross revenue pledge; and
7. 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 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. 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 six months from the date of approval.

Date of Approval: \_\_\_\_\_