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

Applicant:	Tender Loving Care Home for Boys, Inc. (TLC) 11519 Carlisle Place Rancho Cucamonga, CA 91730 San Bernardino County	**Loan Amount:** **Loan Term:** **Annual Interest Rate:** **Authority Meeting Date:** **Resolution No.**	$1,200,000 20 years 2% fixed May 30, 2024 HII-355

Project Site: To be determined (San Bernardino County)
Facility Type: Short Term Residential Therapeutic Program
Eligibility: Government Code Section 15432(d)(13)
Prior HELP II Borrower: No

Background: TLC is a 501(c)(3), community-based treatment program established in 2000 to provide short-term, therapeutic, and intensive 24-hour care and supervision for high-needs males between the ages of 12 and 20 years. In 2023, TLC supported 55 youth, who were referred by the San Bernardino County for mental health and substance abuse assistance.

Use of Proceeds: Proceeds will be used to purchase a residence in San Bernardino County to relocate one of its current licensed facilities from a leased location to a company-owned asset. The current lease is set to expire in August 2024.

Financing Structure:

- First lien on real property purchased with HELP II funds (San Bernardino County)
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately $6,070 (annual payments of approximately $72,847)
- A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
- Executed purchase contrac
- Corporate gross revenue pledge
- Verification of borrower funds to close escrow

Financial Overview: TLC's income statement appears to exhibit increasing revenue. TLC's balance sheet exhibits a strong pro-form FY 2023 net debt service coverage ratio of 6.9x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
HELP II loan	$ 1,200,000	Purchase real property	$ 1,264,000
Applicant funds	88,000	Financing cost	24,000
Total Estimated Sources	$ 1,288,000	**Total Estimated Uses**	$ 1,288,000

Due Diligence: Staff has confirmed the following documentation provided by TLC satisfies the California Health Facilities Financing Authority's (Authority) eligibility and legal review requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-355 in an amount not to exceed $1,200,000 for Tender Loving Care Home for Boys, 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.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

TLC is requesting a HELP II loan to purchase a property located in San Bernardino County to be used as a short-term residential therapeutic program (STRTP) and mental health clinic. TLC currently leases two facilities used as STRTPs, and each facility serves six clients. TLC intends to relocate one of its existing licensed facilities from a leased property to a company-owned asset. This purchase will allow TLC to terminate a $3,600 per month lease that will expire in August 2024, and TLC expects rent payments to increase with a new lease. Purchasing property will also allow TLC to better control its maintenance costs and pass along any savings to enhance treatment and supervision of its clients.

Purchase Real Property*... *$1,264,000

TLC plans to purchase a new facility that is approximately 2,500 – 3,200 square feet with a minimum of five to six bedrooms and two to three bathrooms to accommodate its six existing youth clients. The new facility is slated to dedicate one room for private mental health services and to offer an outdoor area where up to six youth can play basketball or engage in other types of entertainment and treatment.

The HELP II loan will be secured by a first (1^{st}) lien position on the property purchased. Additionally, TLC will provide an appraisal for the proposed property that exhibits 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.

Financing Costs*.. *24,000

Authority Fees	$18,000
Estimated Escrow/Title Fees	6,000

Total Uses of Funds*.. *$1,288,000

II. FINANCIAL STATEMENTS AND ANALYSIS

Tender Loving Care Home for Boys, Inc.
Statement of Activites & Changes in Net Assets
(Income Statement)

	For the Years Ended December 31,		
	2023	**2022**	**2021**
Revenues & Support			
Contract revenues	$ 2,242,588	$ 1,365,408	$ 1,177,462
Contract revenues-CHRIS	314,785	65,203	162,261
Other income	256,065	234,497	199,261
Total revenues and support	2,813,438	1,665,108	1,538,984
Operating Expenses			
Salaries and wages	1,055,480	749,336	610,237
Taxes & fringe benefits	249,001	224,098	130,099
Accounting and audit services	45,300	38,550	38,000
Advertising	6,205	8,943	8,705
Auto Expense	40,070	28,025	24,522
Bank charges	506	3,384	459
Building repairs and maintenance	57,595	32,880	47,243
Contractual services	10,641	15,474	9,855
Consultant	89,107	62,918	59,033
Equipment lease	85	-	-
Food	173,757	110,243	54,478
In service training	3,200	15,675	8,054
Insurance-General	45,001	40,095	37,679
Insurance-Workers Comp	39,750	19,883	19,682
Interest expense	13,997	8,685	7,896
Licenses	1,643	908	1,767
Membership and subscriptions	6,059	4,238	2,810
Miscellaneous	-	35	-
Office lease	38,400	38,200	13,128
Office supplies	42,210	31,443	22,005
Payroll processing fee	7,356	9,431	12,878
Postage and shipping	899	482	1,071
Shelter lease	83,019	83,419	-
Rent	-	-	83,385
Storage	-	-	127
Supportive services	115,262	78,801	61,381
Telephone	21,868	17,001	21,965
Travel	5,856	3,909	4,111
Depreciation	4,197	-	7,494
Utilities	51,279	37,062	24,027
Total operating expenses	2,207,743	1,663,118	1,312,091
Excess of revenues & support over operating expenses	605,695	1,990	226,893
Net Assets Without Donor Restrictions, beginning of the year	640,466	638,476	411,583
Net Assets Without Donor Restrictions, end of year	$ 1,246,161	$ 640,466	$ 638,476

Tender Loving Care Home for Boys, Inc.
Statement of Financial Position
(Balance Sheet)

	As of December 31,		
	2023	**2022**	**2021**
Assets			
Current Assets			
Cash	$ 1,560,032	$ 1,038,591	$ 927,130
Grants Receivable	257,355	193,490	179,205
Total current assets	1,817,387	1,232,081	1,106,335
Noncurrent Assets			
Property and equipment, net	46,161	-	-
Operating lease Right-ofUse Asset-net of amortization	26,658	91,894	-
Total noncurrent assets	72,819	91,894	-
Total assets	$ 1,890,206	$ 1,323,975	$ 1,106,335
Liabilities and Net Assets			
Current liabilities			
Accounts payable	$ 30,309	$ 93,595	$ 65,872
Payroll and related liabilities	540,994	498,651	394,729
Operating lease liability - current portion	24,446	66,817	-
Vehicle loan payable - current portion	6,537	-	7,258
Total current liabilities	602,286	659,063	467,859
Noncurrent liabilities			
Operating lease liability	-	24,446	-
Officer's payable	3,300	-	-
Vehicle loan payable-Non current	38,459	-	-
Total noncurrent liabilities	41,759	24,446	-
Total liabilities	644,045	683,509	467,859
Net Assets			
Without donor restrictions	1,246,161	640,466	638,476
Total Liabilities and net assets	$ 1,890,206	$ 1,323,975	$ 1,106,335

	Proforma FYE 12/31/2023	**2023**	**2022**	**2021**
Debt Service Coverage - Net (x)	6.9	44.6	0.7	16.3
Debt to Unrestricted Net Assets (x)	1.0	0.0	0.0	0.0
Margin (%)		21.5	0.1	14.7
Current Ratio (x)		3.0	1.9	2.4

Financial Discussion

TLC's income statement exhibits increasing revenue over the review period.

TLC's income statement demonstrates increased total revenues and support each year, from approximately $1.5 million in FY 2021 to nearly $1.7 million in FY 2022, and most recently posting more than $2.8 million in FY 2023. According to TLC management, the slight increase in total revenues and support in FY 2022 was due to a combination of a 59.8% decrease in contract revenue from its Children's Residential Intensive Services (ChRIS) program and only a 16% increase in contract revenues, TLC's main source of revenue. TLC was forced to close one of its two facilities in January 2021 due to a COVID-19 outbreak amongst staff and clients, which reduced its client base in half from 12 to 6 clients. After TLC reopened its second facility and resumed serving 12 total clients in August 2022, revenue from its ChRIS program rebounded by 382.8%, from over $65,000 in FY 2022 to nearly $315,000 in FY 2023. TLC's contract revenues, which come from the Department of Social Services, Aid to Families with Dependent Children – Foster Care, and the Department of Mental Health, also increased 64.2%, from nearly $1.4 million in FY 2022 to more than $2.2 million in FY 2023 with the reopening of its facility and serving the six additional clients. Other income, which, in FY 2023 consisted of interest income, food reimbursement, and the Employee Retention Tax Credit, also increased by 28% from more than $199,000 in FY 2021, to over $234,000 in FY 2022, and then to approximately $256,000 in FY 2023.

Total expenses steadily increased over the review period primarily due to increased salaries and wages and increases in the cost of food. Although TLC temporarily closed one of its facilities, salaries and wages increased 22.8%, from over $610,000 in FY 2021 to over $749,000 in FY 2022. According to TLC's management, salaries and wages increased due to cost-of-living and inflation and to pay competitive wages in order to recruit, hire, and retain staff. Because TLC is accredited by the Commission on Accreditation of Rehabilitation Facilities, TLC is required to hire staff who possess both experience and college degrees. Recruiting qualified individuals requires that TLC match and pay staff competitive wages within the industry to provide the necessary services to its clients. TLC also received funding from a Paycheck Protection Program loan, which was forgiven, that was partially used to help pay for the retention of staff. Salaries and wages then increased 40.9% to nearly $1.1 million in FY 2023 after the closed facility reopened. TLC's food expense increased from approximately $54,000 in FY 2021 to nearly $174,000 in FY 2023 due to inflation and supply and demand pressures.

TLC appears to display a strong balance sheet with a pro-forma FY 2023 net debt service coverage ratio of 6.9x.

TLC's net debt service coverage ratio decreased from 16.3x in FY 2021 to 0.7x in FY 2022 but then increased to 44.6x in FY 2023. TLC had minimal debt in FY 2022, but the low debt service coverage ratio was due to the closure of the facility leaving little income for debt payments. After the second facility reopened and revenues rebounded, the debt service coverage ratio returned to a strong level. Including this HELP II loan, TLC's pro-forma FY 2023 net debt service coverage ratio decreases to 6.9x and reflects TLC's ability to comfortably repay its debts.

TLC has maintained minimal debt throughout the review period, which is reflected by its debt to unrestricted net assets ratio of 0x in all three years. With one existing car loan and this HELP II loan, TLC's proforma FY 2023 debt to unrestricted net assets ratio increases to a still manageable 1x.

III. UTILIZATION STATISTICS

Clients Served
Fiscal Year Ending December 31,

	2023	2022	2021
Totals	55	35	45

IV. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of December 31, 2023	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT			
Toyota Financial Services	$ 47,059	$ 44,996	$ 44,996
PROPOSED NEW DEBT			
HELP II Loan (2024)			1,200,000
TOTAL DEBT		**$ 44,996**	**$ 1,244,996**

V. BACKGROUND AND LICENSURE

Background

TLC is a 501(c)(3) nonprofit, Short Term Residential Therapeutic Program with two, six-bed residential substance abuse facilities located in Rancho Cucamonga. TLC serves youth, who have severe behaviors including, but not limited to, aggression, substance use, runaway, depression, anxiety, attention deficit hyperactivity disorder, and legal issues including arrest history. TLC's programs offer specialized and personal treatment from an experienced clinical and residential staff through interventions and behavior modification and skill building to empower its youth patients to fully embrace their identities and to gain skills needed to transition into permanent adoptive homes or to reunite with their birth families.

Licensure, Certification and Accreditation

TLC is licensed by the California Department of Social Services to operate and maintain short term residential therapeutic and mental health programs.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. HII-355 in an amount not to exceed $1,200,000 for Tender Loving Care Home for Boys, 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-355

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, **Tender Loving Care Home for Boys, 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:

<u>Section 1.</u> Pursuant to the Act, the Authority approves a loan to the Borrower, in an amount not to exceed **$1,200,000** 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 purchased with HELP II funds (San Bernardino County)
2. 20-year, two percent (2%) fixed-rate loan
3. Executed purchase contract
4. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
5. Corporate gross revenue pledge
6. Verification of Borrower's funds to close escrow

<u>Section 2.</u> 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 November 30, 2024.

Date of Approval: ___________________________

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-355

- Purchase real property located in San Bernardino County