

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

Applicant: Hart Community Homes, Inc. (Hart Homes) 20201 Spruce Avenue Newport Beach, CA 92660 Orange County	Loan Amount: \$802,000 Loan Term: 20 years Annual Interest Rate: 3% fixed Authority Meeting Date: December 12, 2024 Resolution Number: HII-360
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Project Site: 220 N. Lemon Street, Fullerton, CA 92832
Facility Type: Group Home
Eligibility: Government Code Section 15432(d)(14)
Prior Borrower: Yes (September 2019)

Background: Founded in 1996, Hart Homes is a not-for-profit group home located in Orange County. Hart Homes’ mission is to heal, educate, and empower at-risk youth and young adults to become healthy, productive, and self-sufficient adults in the community. Hart Homes operates two licensed group homes for boys, ages 13 to 18, in foster care. In addition to the group home services that Hart Homes offers, it also runs a for-profit, fully operational restaurant, the Monkey Business Café, to help establish stability and work experience for its participants.

Use of Proceeds: Loan proceeds will be used to tear down an existing, four-unit apartment complex purchased with HELP II funds in 2020 and to construct a larger facility that can accommodate up to 30 individuals.

Financing Structure:

- Second lien behind Authority’s 2020 HELP II loan, on real property located at 220 N. Lemon Street, Fullerton, CA 92832
- 20-year, three percent (3%) fixed rate loan
- 240 equal monthly payments of approximately \$4,448 (annual payments of approximately \$53,374)
- A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
- Corporate gross revenue pledge
- Executed construction contract
- Verification of approval of other funding sources, that are acceptable to the Authority staff, needed to complete the project
- Verification of borrower funds to close escrow

Financial Overview: Hart Homes’ income statement appears to exhibit increasing revenues in each year of the review period. Hart Homes appears to display a positive balance sheet with a pro-forma FY 2023 net debt service coverage ratio of 2.9x.

Estimated Sources of Funds:

HELP II loan	\$ 802,000
CalOptima Health HHIP grant	4,000,000
Other: grants & donations	2,798,000
Applicant funds	400,000
Total Estimated Sources	\$ 8,000,000

Estimated Uses of Funds:

Renovations	\$ 7,985,475
Financing costs	14,525
Total Estimated Uses	\$ 8,000,000

**CHFFA HELP II
EXECUTIVE SUMMARY**

(Continued)

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

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-360 in an amount not to exceed \$802,000 for Hart Community Homes, Inc., subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, concurs with the Authority staff's recommendation.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

In 2020, Hart Homes used HELP II loan funds to purchase a building located at 220 N. Lemon Street in Fullerton to create a group home for up to ten transitional-aged youth. In May 2024, CalOptima Health approved Hart Homes for a Housing and Homelessness Incentive Program Transitional Housing Grant in the amount of \$4 million to expand transitional-aged housing. Hart Homes plans to demolish its current four-unit facility at 220 N. Lemon Street and reconstruct a group home to accommodate up to 30 at-risk, young adults. The anticipated rebuild will help to combat homelessness and provide safe and supportive housing for the highly vulnerable at-risk and non-minor dependent populations between ages 18-25 years old. Hart Homes is requesting a HELP II loan in an amount not to exceed \$802,000 as additional funding for the project along with the \$4 million CalOptima grant that it has already received and approximately \$2.8 million from other grants and donations, which Hart Homes will provide verification of approval for prior to closing the HELP II loan.

Renovations \$7,985,475

The current facility is a 4,568 square-foot, 1940’s-era apartment building on a lot of over 10,800 square feet. The apartment building has four individual units with eight bedrooms that *accommodate* up to ten at-risk youth. Loan funds will be used to demolish the existing facility and construct a new four-story, multi-unit residence to accommodate up to 30 individuals. The first floor will contain a drop-in center with computers and an area for workshops and activities. The second and third floors will each contain three, three-bedroom and three-bathroom units and one, two-bedroom and two-bathroom unit. The fourth floor will have two, three-bedroom and three-bathroom units and one, two-bedroom and two-bathroom unit. All units will have their own kitchen and living room. Each floor will contain a laundry room and community space. The fourth level will also have a roof deck, community garden, and barbeque area. All levels will be accessible via elevator and stairs. In total, the new project will encompass over 13,700 square feet. Through Hart Homes’ adjacent social enterprise, Monkey Business Café, residents will have access to employment opportunities, which will simultaneously provide them with self-sufficiency, stability, and a successful integration into the community.

The 2024 HELP II loan will be secured by a second (2nd) lien position on the property as the Authority also currently holds the first (1st) lien position from the 2020 HELP II loan. Additionally, Hart Homes will provide an appraisal of the property, exhibiting a combined loan-to-value ratio not to exceed 95% before closing as well as an assurance of meeting the other security terms and conditions set forth in the resolution.

Financing Costs 14,525

Authority Fees	\$10,025
Estimated Escrow/Title Fees	<u>4,500</u>

Total Estimated Uses of Funds..... \$8,000,000

II. FINANCIAL STATEMENTS AND ANALYSIS

HART COMMUNITY HOMES, INC. CONSOLIDATED STATEMENT OF ACTIVITIES

(Income Statement)

	For the Years Ended June 30		
	2023	2022	2021
REVENUES AND SUPPORT			
Federal awards	\$ 509,267	\$ 686,612	\$ 676,749
Food program	18,949	17,576	32,238
STRTP	1,322,327	795,354	1,090,930
Mental health program	810,403	756,937	346,477
Contributions	394,630	243,741	220,067
Other contracts	11,118	-	32,661
PPP loan forgiveness	-	211,141	169,412
THPP rental income	223,713	210,612	37,452
Sales	912,207	752,772	447,930
Other income	221,375	67	111
Total Revenues and Support	<u>4,423,989</u>	<u>3,674,812</u>	<u>3,054,027</u>
EXPENSES			
Payroll	2,411,645	2,102,398	1,495,004
Payroll taxes and fringe benefits	428,349	344,849	252,479
Auto	36,751	34,863	16,137
Bank fees	10,381	23,157	8,197
Child related	154,935	140,124	128,276
Food	293,408	255,454	103,986
Consulting	-	-	3,750
Insurance	38,889	23,782	46,524
Interest	50,687	52,007	44,986
Office	73,491	52,346	39,854
Other	22,131	22,438	164,589
Professional services	30,323	37,521	83,898
Recruiting	8,519	-	-
Rent	40,557	39,820	48,540
Repairs and maintenance	129,646	126,411	64,662
Restaurant software fee	53,535	51,422	-
Supplies	21,172	11,220	4,108
Taxes	4,807	8,746	7,441
Telephone	18,891	5,898	11,492
Training	8,519	16,264	11,123
Utilities	89,850	82,398	62,761
Depreciation and amortization	123,985	137,827	147,967
	<u>4,050,471</u>	<u>3,568,945</u>	<u>2,745,774</u>
OTHER INCOME (EXPENSES)			
Income tax	<u>(42,506)</u>	<u>(50,267)</u>	<u>(126,742)</u>
Change in net assets	331,012	55,600	181,511
Net assets - beginning of year	<u>1,000,299</u>	<u>944,699</u>	<u>763,188</u>
Net assets - end of year	<u>\$ 1,331,311</u>	<u>\$ 1,000,299</u>	<u>\$ 944,699</u>

HART COMMUNITY HOMES, INC
Consolidated Statements of Financial Position
(Balance Sheet)

	As of June 30,		
	2023	2022	2021
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,046,025	\$ 859,005	\$ 689,021
Contracts receivable	198,949	174,741	163,585
Accounts receivable	17,939	12,307	8,474
Total Current Assets	<u>1,262,913</u>	<u>1,046,053</u>	<u>861,080</u>
Restricted Cash			
Cash held on behalf of participants	7,074	12,932	-
Property and Equipment, net	<u>1,991,136</u>	<u>1,995,775</u>	<u>2,128,615</u>
Other Assets			
Prepaid expenses	4,500	4,148	26,777
Deferred tax assets	-	36,778	85,668
Right-of-use assets, operating leases	178,338	-	3,000
Total Other Assets	<u>182,838</u>	<u>40,926</u>	<u>115,445</u>
Total Assets	<u>\$ 3,443,961</u>	<u>\$ 3,095,686</u>	<u>\$ 3,105,140</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable	\$ 53,700	\$ 59,448	\$ 26,174
Accrued expenses	96,273	119,095	84,556
Contracts payable	51,019	123,184	37,427
Accrued interest	8,779	10,534	-
Deferred revenue	43,639	43,765	-
Loan payable - current portion	-	-	3,671
Mortgage payable - current portion	69,151	67,482	65,860
Operating lease liabilities, current portion	29,623	-	-
Total Current Liabilities	<u>352,184</u>	<u>423,508</u>	<u>217,688</u>
Long-Term Liabilities			
PPP loan payable	-	-	211,141
Loan payable	149,900	149,900	146,229
Deferred tax liability	5,728	-	-
Mortgage payable	1,456,123	1,521,979	1,585,383
Operating lease liabilities, net of current portion	148,715	-	-
Total Long-Term Liabilities	<u>1,760,466</u>	<u>1,671,879</u>	<u>1,942,753</u>
Total Liabilities	<u>2,112,650</u>	<u>2,095,387</u>	<u>2,160,441</u>
Net Assets			
Without donor restrictions			
Undesignated	865,449	593,985	467,327
Investment in property and equipment, net of related debt	465,862	406,314	477,372
Total Net Assets Without Donor Restrictions	<u>1,331,311</u>	<u>1,000,299</u>	<u>944,699</u>
Total Net Assets	<u>1,331,311</u>	<u>1,000,299</u>	<u>944,699</u>
Total Liabilities and Net Assets	<u>\$ 3,443,961</u>	<u>\$ 3,095,686</u>	<u>\$ 3,105,140</u>

	Proforma ^(a)			
	FYE 6/30/2023	2023	2022	2021
Debt Service Coverage - Net (x)	2.9	4.3	2.0	3.4
Debt to Unrestricted Net Assets (x)	1.9	1.3	1.7	1.9
Margin (%)		8.4	2.9	10.1
Current Ratio (x)		3.6	2.5	4.0

^(a) Recalculates FY2023 audited results to include the impact of this proposed financing.

III. FINANCIAL DISCUSSION

Hart Homes' income statement appears to exhibit positive revenues in each year of the review period.

Hart Homes' income statement shows total revenues and support exceeded total expenses in each year of the review period. Total revenues and support increased from approximately \$3.1 million in FY 2021, to approximately \$3.7 million in FY 2022, to over \$4.4 million in FY 2023. The increase was attributed to the addition of the Mental Health Program services in December 2020 and the Transitional Youth Program services in May 2021. Revenues from the Mental Health Program increased from approximately \$346,000 in FY 2021 to over \$810,000 in FY 2023. Hart Homes receives funding from the Department of Social Services under their Transitional Housing Programs for Non-Minor Dependent and the Transitional Housing Program-Plus because of the services Hart Homes provides to transitional young adults who have exited the foster care program. Short-Term Residential Therapeutic Program (STRTP) funds fluctuated from approximately \$1.1 million in FY 2021, to approximately \$795,000 in FY 2022, then increased to over \$1.3 million in FY 2023. According to Hart Homes' management, the fluctuations were the result of high client turnover. Over a period of several months, Hart Homes streamlined its client selection process, which minimized the turnover rate. Other income increased significantly in FY 2023 as Hart Homes received an Employee Retention Tax Credit as a result of qualifying declining gross receipts during certain quarters of FY 2020 and FY 2021.

Overall expenses were less than revenues during each year of the review period and resulted in positive year-end change in net assets. The largest expense increases were experienced in payroll, auto, and food expenses and are a reflection of the state mandated living-wage increases, a rise in insurance costs, and overall price inflation for food items.

Hart Homes appears to display a positive balance sheet, with a pro-forma FY 2023 net debt service coverage ratio of 2.9x.

Hart Homes' debt to unrestricted net assets ratio has remained over 1x and decreased steadily throughout the review period, at 1.9x in FY 2021, 1.7x in FY 2022, and 1.3x in FY 2023. The addition of the new HELP II loan will result in a proforma FY 2023 debt to unrestricted net assets ratio of 1.9x. At the same time, Hart Homes has demonstrated an ability to repay its debt with a net debt service coverage ratio of 3.4x in FY 2021, 2.0x in FY 2022, and 4.3x in FY 2023. With the additional HELP II loan, Hart Homes' pro-forma FY 2023 debt service coverage ratio decreases to a still solid 2.9x.

Their indicators of financial liquidity appear to be strong, posting a current ratio of 4.0x in FY 2021 and 2.5x in FY 2022, and 3.6x in FY 2023. The strong current ratios are attributed to the Hart Homes' total current assets that increased steadily from just over \$861,000 in FY 2021 to over \$1.2 million in FY 2023.

IV. UTILIZATION STATISTICS

**Clients Served / Patient Visits
Fiscal Year Ending June 30,**

	2023	2022	2021
Totals	60	58	63

V. OUTSTANDING DEBT

	<u>Original Amount</u>	<u>Amount Outstanding as of June 30, 2023</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
EXISTING LONG-TERM DEBT			
First Foundation (2017)	\$ 400,000	\$ 346,478	\$ 346,478
HELP II Loan (2020)	1,330,000	1,099,854	1,099,854
Small Business Administration (2021)	150,000	149,900	149,900
PROPOSED NEW DEBT			
HELP II Loan (2024)			802,000
TOTAL DEBT		<u><u>\$ 1,596,232</u></u>	<u><u>\$ 2,398,232</u></u>

VI. BACKGROUND AND LICENSURE

Background

In 1996, a father-daughter team founded Hart Community Homes, Inc., a nonprofit organization, to address the growing needs of teenage boys who remain unadopted from foster care. The duo opened two group homes to provide supportive, healthy, and safe residential treatment for approximately 12 teenage males between 13 – 18 years old. After the two group homes transitioned into STRTPs, Hart Homes was able to provide its residents with more intensive care and support services, such as therapy, mentoring, health care, financial literacy, and counseling from staff available on a 24-hour basis. Since its founding, Hart Homes has assisted more than 1,000 youth with stable housing, counseling, and health care. Young adults in the program are also able to gain employment and work experience by working at the Monkey Business Café and Catering enterprise that is owned and operated by Hart Homes.

Licensure and Accreditation

Hart Homes is licensed by the State of California Department of Social Services to operate and maintain a group home and to provide short-term residential care and treatment for youth as a licensed Short-Term Residential Therapeutic Program.

VII. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. HII-360 in an amount not to exceed \$802,000 for Hart Community Homes, 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 Number HII-360

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;

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

WHEREAS, **Hart Community Homes, 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 HELP II loan to the Borrower in an amount not to exceed **\$802,000** 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. Second lien on real property located at 220 N. Lemon Street, Fullerton, CA 92832
2. 20-year, three percent (3%) fixed-rate loan
3. A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
4. Corporate gross revenue pledge
5. Executed construction contract
6. Verification of approval of other funding sources, that are acceptable to the Authority staff, needed to complete the project
7. 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 loans, 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 loans shall 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 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 June 30, 2025.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-360

- Demolish existing four-unit facility and reconstruct a larger, multi-unit facility. Property is located at 220 N. Lemon Street, Fullerton, CA 92832.