

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Creative Alternative For Learning And Living, Inc. (“CALL”) 11700 Viejo Camino Atascadero, CA 93422 San Luis Obispo County</p>	<p>Amount Requested: \$220,000 Requested Loan Term: 15-year fixed Authority Meeting Date: October 30, 2014 Resolution Number: HII-287</p>
<p>Project Site: 2660 Ferro Carril Rd., Atascadero, CA 93422 (San Luis Obispo County)</p>	
<p>Facility Type: Adult Residential – Developmental Disability</p>	
<p>Eligibility: A community care facility pursuant to Government Code section 15432(d)(19)</p>	
<p>Prior HELP II Borrower: Yes (Balance outstanding: \$14,575 as of September 30, 2014)</p>	

Background: CALL is a non-profit organization serving developmentally disabled adults in San Luis Obispo County. CALL operates four residential homes and a day program, which serves individuals ranging in age from 18 to 59+ who are diagnosed as having severe behavioral challenges as well as other developmental disabilities that place them at risk of having State developmental centers as their only living option. Clients typically have cerebral palsy, autism, downs syndrome, seizure disorders, and mental health issues.

Uses of Loan Proceeds: The HELP II Loan proceeds will be used to refinance a loan issued by Pacific Western Bank that was used to purchase land and a residential home in order to provide support services for adults with developmental disabilities.

Financing Structure:

- 15-year fixed rate for refinance.
- 180 equal monthly payments of approximately \$1,519 (yearly payments of approximately \$18,231).
- Corporate gross revenue pledge.
- CALL will provide quarterly financial and occupancy updates until they meet target debt service and operating margin goals of 1.25x and 1%, respectively, for a period of three (3) years.
- First (1st) lien position on the property located at 2660 Ferro Carril, Atascadero, CA 93422.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 44%).

Financial Overview: CALL’s balance sheet appears to exhibit minimal leverage with a debt to unrestricted net assets ratio of 0.27x, but a weak proforma debt service coverage ratio of 0.43x. CALL’s income statement appears to exhibit mixed operating results during the review period.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 220,000	Refinance existing loan	\$ 220,000
Borrower funds	<u>4,750</u>	Financing costs	<u>4,750</u>
Total Estimated Sources	<u><u>\$ 224,750</u></u>	Total Estimated Uses	<u><u>\$ 224,750</u></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: Fidelity National Title Company.

Staff Recommendation: Staff recommends approval of Resolution Number HII-287 for Creative Alternative For Learning And Living, Inc. in an amount not to exceed \$220,000 for a term not to exceed 15 years, 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:

As CALL’s reimbursement rates from the State of California have remained stagnant for the past several years, the refinancing will allow CALL to continue providing services at the current rates while passing the cost savings on to its consuming public. The refinancing is expected to reduce CALL’s annual debt service payments by approximately \$3,300.

***Refinance existing loan* \$220,000**

CALL plans to refinance an existing loan from Pacific Western Bank. The loan was originally used to purchase land and a residential facility in February 2002 with a 6.75% interest rate. CALL provides 24-hour care and supervision to six (6) adults currently living at the residential facility.

The HELP II loan will be secured by a first (1st) lien position on the property located at 2660 Ferro Carril Rd., Atascadero, CA, which is a building of approximately 2,682 square feet. According to an appraisal completed August 7, 2014, the value of the property is \$500,000 leading to a loan to value ratio is 44%.

***Financing Costs* 4,750**
 Authority Fees..... \$2,750
 Title and Escrow Fees 2,000

Total Uses of Funds..... \$224,750

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II. CALL - FINANCIAL STATEMENTS AND ANALYSIS

Creative Alternative for Learning & Living, Inc. Statement of Activities (Unrestricted)

	For the year ended June 30,		
	2013	2012	2011
*Revenues and other support:			
Client fees	\$ 1,441,498	\$ 1,531,488	\$ 1,516,599
SSI/SSA income	250,681	275,625	270,991
Donations	1,750	2,208	2,325
Interest income	436	598	928
Other income	-	93	94
Total revenues and other support	<u>1,694,365</u>	<u>1,810,012</u>	<u>1,790,937</u>
Expenses:			
Salaries	1,112,696	1,111,099	1,116,861
Worker's compensation	103,129	47,576	89,990
Payroll taxes	94,962	-	109,951
Employee benefits	71,041	70,967	71,296
Food	52,043	54,692	52,740
Depreciation	42,417	50,444	48,220
Repairs and maintenance	37,988	35,204	31,825
Consultants	36,729	27,684	26,580
Automobile and transportation	32,827	33,494	31,614
Insurance	26,771	26,348	24,618
Utilities	24,661	23,556	23,238
Supplies	23,150	24,865	25,336
Interest	20,451	22,127	23,740
Telephone & communications	13,238	11,796	11,474
Professional fees	10,171	14,114	9,725
Education and training	7,085	4,184	5,023
Equipment and furniture	4,612	5,499	4,996
Employee expenses	3,442	3,877	3,511
Taxes and licenses	2,801	3,546	2,881
Physicals/vaccines	2,520	1,710	1,281
Dues and subscriptions	2,518	2,305	1,404
Leases	2,518	2,135	2,331
Outside services	643	110,530	500
[±] Other	<u>6,516</u>	<u>6,210</u>	<u>5,569</u>
Total expenses	<u>1,734,929</u>	<u>1,693,962</u>	<u>1,724,704</u>
Change in Unrestricted Net Assets:	(40,564)	116,050	66,233
Net assets - beginning of year	<u>1,161,757</u>	<u>1,045,707</u>	<u>979,474</u>
Net assets - end of year	<u>\$ 1,121,193</u>	<u>\$ 1,161,757</u>	<u>\$ 1,045,707</u>

[±]Other includes: Advertising, Reinforcers, Pest control, Miscellaneous, Travel, Postage, and Bank fees

***Net Patient Revenue for FYE June 30, 2013**

<u>Payor Source</u>	<u>Percent</u>
Government Contracts	99
Other	1
Total	100

**Creative Alternative for Learning & Living, Inc.
Statement of Financial Position**

Assets	As of June 30,		
	2013	2012	2011
Current assets:			
Cash and cash equivalents	\$ 308,238	\$ 407,066	\$ 276,440
Accounts receivable	126,110	125,172	133,286
Prepaid expenses	31,995	28,111	34,921
Funds held in trust	6,402	5,340	4,143
Total current assets	472,745	565,689	448,790
Fixed assets:			
Land	460,608	460,608	460,608
Buildings and improvements	915,783	869,338	850,373
Equipment	14,687	14,688	12,953
Vehicles	132,829	165,493	162,393
Accumulated depreciation	(478,803)	(473,717)	(423,273)
Total fixed assets, net of accumulated depreciation	1,045,104	1,036,410	1,063,054
Total assets	\$ 1,517,849	\$ 1,602,099	\$ 1,511,844
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 11,016	\$ 13,737	\$ 12,785
Accrued payroll and payroll taxes	46,514	45,926	51,576
Accrued vacation	26,206	26,060	22,414
Accrued expenses	395	8,226	919
Current portion of long-term debt	36,671	34,885	33,197
Funds held in trust	6,402	5,340	4,143
Total current liabilities	127,204	134,174	125,034
Long term liabilities:			
Long-term debt, net of current portion	269,452	306,168	341,103
Total liabilities	396,656	440,342	466,137
Net assets:			
Unrestricted	1,121,193	1,161,757	1,045,707
Total liabilities & net assets	\$ 1,517,849	\$ 1,602,099	\$ 1,511,844

Financial Ratios:

	Proforma (a)			
	<u>FYE June 30, 2013</u>			
Debt Service Coverage (x)	0.43	0.40	3.41	2.50
Debt/Unrestricted Net Assets (x)	0.27	0.27	0.29	0.36
Margin (%)		(2.39)	6.41	3.70
Current Ratio (x)		3.72	4.22	3.59

(a) Recalculates FY2013 audited results to include the impact of this proposed financing

Financial Discussion – Statement of Activities (Income Statement)

CALL's income statement appears to exhibit mixed operating results during the review period.

CALL's income statement exhibited solid operating results in FY 2011 and FY 2012 with gains in unrestricted net assets of approximately \$66,000 and approximately \$116,000, respectively. However, CALL experienced a loss of approximately \$41,000 in FY 2013. According to CALL's management, this loss was a result of two beds that remained vacant, which decreased revenues by approximately \$85,000. In the same year, CALL also experienced an increase in overtime payments of \$25,000 due to a shortage of staff. In February 2014, CALL's management implemented a company-wide salary increase to maintain its current staff, while also increasing starting wages to attract more high-quality staff to remain competitive. According to management, CALL also made several improvements to all its properties in FY 2013 in order to attract more clients to fill empty beds and to participate in its day program.

Particular Facts to Note:

- Expenses for worker's compensation fluctuated from approximately \$90,000 in FY 2011 to approximately \$48,000 in FY 2012, and then to approximately \$103,000 in FY 2013. According to CALL's management, the worker's compensation premium is determined using the number of injuries over a three year period. In January 2013, CALL improved its hiring physicals screening process, created more training programs, and instituted a safety incentive program in order to decrease work injuries and thereby decrease its workers compensation premium.
- Client fees remained steady from FY 2011 to FY 2012, but dipped about 5% from approximately \$1.5 million in FY 2011 to approximately \$1.4 million in FY 2013. According to CALL's management, CALL had two vacant beds at the San Antonio facility for all of FY 2013, which resulted in the lower client fees.
- CALL paid payroll taxes of approximately \$110,000 in FY 2011, did not have a payroll tax expense in FY 2012, and then paid approximately \$95,000 in FY 2013. According to CALL's management, CALL's auditors termed the payroll taxes as "outside services" in the audited financials for FY 2012. According to CALL's Profit & Loss statement, payroll taxes were \$109,951 in FY 2011; \$110,530 in FY 2012; and \$94,962 in FY 2013.

Financial Discussion – Statement of Financial Position (Balance Sheet)

CALL's balance sheet appears to exhibit minimal leverage with a debt to unrestricted net assets ratio of 0.27x, but a weak proforma debt service coverage ratio of 0.43x.

CALL has maintained low levels of debt while also consistently lowering its overall amount of debt throughout the review period. CALL's debt-to-unrestricted net assets dropped from 0.36x in FY 2011 to 0.29x in FY 2012 and to 0.27x in FY 2013. While CALL's total debt will remain at its current level with the refinancing, annual payments will decrease, helping improve operating results. CALL has typically maintained a strong debt service coverage ratio with 2.5x in FY 2011 and 3.41 in FY 2012. With the operating loss in FY 2013, CALL's debt service coverage fell to 0.4x. CALL's debt service coverage ratio will slightly improve to 0.43x with the refinancing.

Particular Facts to Note:

- Unrestricted net assets fell from approximately \$1.2 million in FY 2012 to approximately \$1.1 million in FY 2013, but CALL still had an overall increase in unrestricted net assets of about 7% during the review period.
- CALL had significant gains in cash and cash equivalents from approximately \$276,000 in FY 2011 to approximately \$407,000 in FY 2012. It then fell to approximately \$308,000 in FY 2013; however, it still represents a gain of about 12% over the review period.
- In FY 2013 CALL had accounts payable of approximately \$11,000 and accounts receivable of approximately \$126,000. It demonstrates that CALL typically repays its vendors quickly with payables outstanding for approximately two days, while it takes about 27 days to be reimbursed for its services. According to CALL's management, CALL prefers to pay vendors early in order to maintain better working relationships with its local vendors, but its ability to collect receivables is determined by the billing process from State of California via Tri-Counties Regional Center.

EXHIBIT 1

UTILIZATION STATISTICS

**Clients Served
(Homes / Day Program)***

**Creative Alternative For Learning And Living, Inc.
Fiscal Year Ended June 30,**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Totals	22 / 26	22 / 24	24 / 25

*CALL operates four (4) homes and one (1) day program with a capacity for 24 individuals and 45 individuals, respectively.

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EXHIBIT 2

OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding^(a) As of June 30, 2013</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA HELP II Loan July 26, 2000	\$ 214,000	\$ 35,746	\$ 35,746
Pacific Western Bank Note payable	150,000	42,063	42,063
Pacific Western Bank Note payable	276,800	228,314	-
-PROPOSED NEW DEBT:			
CHFFA HELP II Loan			220,000
-TOTAL DEBT		<u>\$ 306,123</u>	<u>\$ 297,809</u>

(a) Includes current portion of long-term debt

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EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Creative Alternative For Learning And Living, Inc. is a non-profit organization serving developmentally disabled adults in San Luis Obispo County. CALL's mission is to provide quality services that have a positive impact on the lives of adult individuals with developmental disabilities and their families. CALL's program is based on the belief that when provided with the proper learning environment, all individuals can learn and lead productive lives in the community, regardless of their disability. CALL serves individuals ranging in age from 18 to 59+ who are diagnosed as having severe behavioral challenges as well as other developmental disabilities that place them at risk of having State developmental centers as their only living option. Typically, CALL clients have cerebral palsy, autism, downs syndrome, seizure disorders, and mental health issues. CALL teaches independent living skills, self-help skills, and community integration. CALL currently operates four residential homes as well as a day program, all located in the City of Atascadero. The focus of the day program is to provide meaningful activities, job training if desired, as well as community integration.

It is CALL's goal to care for those who are unable to care for themselves without support through fairness, dignity, and respect. CALL is dedicated to the improvement of the quality of life for its clients, which also enhances the quality of life for the community.

Licensure, Certification and Accreditation

Creative Alternative For Learning And Living, Inc. is licensed by the State of California Department of Social Services as an adult residential facility serving the developmentally disabled.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-287

**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, **Creative Alternative For Learning And Living, 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 **\$220,000** for a term not to exceed **15 years** for the purpose 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. 15-year fixed rate for refinance;
2. First (1st) lien position on property located at 2660 Ferro Carril Rd., Atascadero, CA 93422;
3. Loan to value ratio not to exceed 95%;
4. Borrower shall provide quarterly financial and occupancy updates until Borrower meets target debt service and operating margin goals of 1.25x and 1%, respectively for a period of three (3) years;
5. Corporate gross revenue pledge; and
6. 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: _____