

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

Applicant: Horizon Services, Incorporated (Horizon)
1866 B Street
Hayward, CA 94541
Alameda County

Loan Amount: \$2,000,000
Loan Term: 20 years
Annual Interest Rate: 2% fixed
Authority Meeting Date: January 25, 2024
Resolution No.: HII-349

Project Site: 3837, 3839, 3841, 3843, 3845, & 3847 Telegraph Avenue, Oakland, CA 94609

Facility Type: Adult residential alcohol and drug treatment facility

Eligibility: Government Code Section 15432(d)(14)

Prior HELP II Borrower: Yes (July 2007)

Background: Horizon is a 501(c)(3) non-profit, community-based organization that was established in 1974 with its first program opening in 1976 establishing sober living support services for men. Today, Horizon operates seven programs across Alameda, Santa Clara, and San Mateo counties, providing alcohol, drug, and mental health related services to adults and adolescents. All programs are evidence-based and provide a safe environment for understanding and addressing substance use disorder (SUD) and mental health-related issues that keep people from reaching their full potential.

Use of Proceeds: Loan proceeds will be used to demolish two existing buildings and construct a 20,000 square foot, four-story, 103-bed licensed behavioral addiction treatment facility.

Financing Structure:

- 20-year, two percent (2%) fixed rate loan
- Minimal second lien position on the real properties located at 3837, 3839, 3841, 3843, 3845, & 3847 Telegraph Avenue, Oakland, CA 94609, or the project as contemplated, if the addresses are modified through demolition and construction
- A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
- 240 equal monthly payments of approximately \$10,118 (annual payments of approximately \$121,412)
- Executed construction contract
- Verification of approval of other funding sources, that are acceptable to the Authority staff, needed to complete the project
- Corporate gross revenue pledge
- Verification of borrower’s funds to close

Financial Overview: Horizon’s income statement appears to exhibit positive operating results each year of the review period. Horizon appears to display a solid balance sheet with a pro-forma FY 2023 net debt service coverage ratio of 1.4x.

Estimated Sources of Funds:

HELP II loan	\$ 2,000,000
Behavioral Health Continuum Infrastructure Grant	14,000,000
Bank loan	4,000,000
Applicant funds	30,000
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Total Estimated Sources \$ 20,030,000

Estimated Uses of Funds:

Construction	\$ 20,000,000
Financing costs	30,000
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Total Estimated Uses \$ 20,030,000

Due Diligence: Staff has confirmed the following documentation provided by Horizon satisfies the California Health Facilities Financing Authority’s (Authority) requirements: Eligibility, Legal Review, and Religious Affiliation Due Diligence.

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-349 in an amount not to exceed \$2,000,000 for Horizon Services, Incorporated, 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

Horizon operates a residential substance use treatment facility for women in Oakland, California, which consists of two adjacent multi-level Victorian houses. Both homes were originally constructed in 1912, and due to their age, Horizon determined that significant maintenance, accessibility, fire safety, and other structural issues would need to be addressed in order to continue operating the facility. Horizon is requesting a HELP II loan to help finance the demolition of the two aging buildings and construct a new, state-of-the-art, sustainable, multi-level behavioral addiction treatment facility.

To complete the \$20 million construction project, Horizon will require other funding sources. If the HELP II loan is approved, Horizon’s next step will be to apply for a \$4 million private bank loan. Using the HELP II loan and the private bank loan as leveraged funding, Horizon will then apply for a \$14 million grant through the Department of Health Care Service’s Behavioral Health Continuum Infrastructure Program (BHCIP).

Horizon will apply for the BHCIP grant in February 2024, with grant award announcements expected to be made in June 2024. If awarded, Horizon will then begin the pre-construction and bidding process with construction anticipated to begin in early 2025. Due to the timing of the grant award, the Authority will set its resolution repeal date as February 28, 2025 to allow Horizon time to begin construction.

***Construction* 20,000,000**

Horizon is proposing to design and construct a 20,000 square foot, four-story behavioral addiction treatment facility on its own property in Oakland, California. Once completed, the project will transform the current facility that services, on average, nine-women into a 103-bed, licensed multi-intensity treatment campus. The new campus will allow Horizon to integrate detox services within a residential program on the same site.

To close the HELP II loan, Horizon will be required to provide verification of approval of the private bank loan and the BHCIP grant. Considering the scope of the construction project, the closing of the HELP II loan will be contingent upon approval of other funding sources that would provide the remaining funds to complete the project that is acceptable to the Authority staff. Additionally, the HELP II loan may be secured by a second (2nd) lien position on the two adjacent multi-level properties. The private bank loan may have the first (1st) lien position as it is contributing more funds (\$4 million) than the HELP II loan. Additionally, Horizon will have to provide an appraisal for the proposed property that exhibits a combined, HELP II and private bank loan, 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.

<i>Financing Costs</i>		<u>30,000</u>
Authority Fee	\$25,000	
Estimated Escrow/Title Fee	<u>5,000</u>	
Total Uses of Funds		<u>\$20,030,000</u>

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II. FINANCIAL STATEMENTS AND ANALYSIS

Horizon Services, Inc. Statement of Activities (Income Statement)

	For the Years Ended June 30,		
	2023	2022	2021
Revenue and Public Support			
Fees and grants from governmental agencies	\$ 16,244,542	\$ 10,286,296	\$ 10,896,792
Contracts and grants	151,748	156,490	248,436
Client fees	1,880	2,512	3,625
Contributions	29,309	102,234	6,404
Gain on forgiveness of Paycheck Protection Program loan	-	2,103,582	-
Insurance proceeds	-	-	1,030,317
Net investment income	44,000	-	-
Other revenues	34,420	38,196	36,340
Net assets released from restrictions	10,731	89,920	141
Total revenue and public support	16,516,630	12,779,230	12,222,055
Expenses			
Salaries and wages	7,717,924	6,288,079	6,474,341
Employee benefits	1,945,168	1,385,191	1,946,996
Professional services	1,074,429	571,532	431,553
Miscellaneous	956,892	381,368	376,344
Rent	664,690	659,660	678,023
Payroll taxes	622,112	475,452	585,919
Facility maintenance	544,573	112,041	82,228
Insurance	506,485	103,421	105,952
Food	359,824	117,221	144,283
Office supplies	293,450	111,108	77,971
Household	275,613	87,592	94,157
Communication	185,030	163,611	183,632
Utilities	151,074	105,113	91,800
Training	99,124	52,250	43,481
Depreciation	75,297	62,669	78,026
Bad debt expense	66,699	-	-
Transportation	66,347	38,846	24,680
Amortization	42,386	-	-
Taxes and licenses	41,893	31,758	38,462
Resident supplies	34,990	7,816	14,485
Recruitment	34,018	21,673	21,865
Medical	26,606	112,104	22,902
Membership dues	25,307	19,578	17,893
Equipment rent	18,329	73,566	74,834
Travel	18,063	1,014	-
Equipment maintenance	16,962	8,641	8,021
Vehicle maintenance	15,716	6,496	12,148
Bank charges	9,476	7,593	5,034
Interest	8,334	4,813	3,679
Subscriptions	7,838	7,728	12,402
Recreation activities	3,635	1,842	300
Vehicle rent	2,560	-	-
Printing	1,773	-	-
Gifts and awards	1,479	363	330
Education materials	41	92	1,523
Total expenses	15,914,137	11,020,231	11,653,264
Change in net assets	602,493	1,758,999	568,791
Net assets, beginning of the year	6,495,382	4,736,383	4,167,592
Net assets, end of the year	\$ 7,097,875	\$ 6,495,382	\$ 4,736,383

Horizon Services, Inc.
Statement of Financial Position
(Balance Sheet)

	As of June 30,		
	2023	2022	2021
Assets			
Cash and cash equivalents	\$ 3,190,175	\$ 6,140,462	\$ 6,987,043
Investments	3,511,052	-	-
Accounts receivable	4,403,534	2,941,159	2,806,498
Prepaid expenses and other assets	330,406	198,238	182,170
Deposits	62,857	46,823	70,009
Operating lease and right-of-use assets	492,590	-	-
Property and equipment, net	463,640	291,087	344,294
Total assets	<u>\$ 12,454,254</u>	<u>\$ 9,617,769</u>	<u>\$ 10,390,014</u>
Liabilities and Net Assets			
Accounts payable	\$ 386,110	\$ 242,145	\$ 150,758
Accrued payroll and payroll taxes	460,935	275,387	328,586
Accrued vacation	271,517	208,424	219,183
Accrued retirement	529,006	137,896	558,007
Deferred revenue	3,138,139	2,183,741	2,091,908
Operating lease liabilities	499,247	-	-
Capital lease payable	-	-	36,052
Paycheck Protection Program loan	-	-	2,103,582
Notes payable	16,866	27,767	38,744
Total liabilities	<u>5,301,820</u>	<u>3,075,360</u>	<u>5,526,820</u>
Net Assets			
Without donor restrictions	7,097,875	6,495,382	4,736,383
With donor restrictions	54,559	47,027	126,816
Total net assets	<u>7,152,434</u>	<u>6,542,409</u>	<u>4,863,199</u>
Total Liabilities and Net Assets	<u>\$ 12,454,254</u>	<u>\$ 9,617,769</u>	<u>\$ 10,390,019</u>

	Proforma			
	FYE June 30, 2023^(a)	2023	2022	2021
Debt Service Coverage - Net (x)	1.4	20.0	59.1	24.9
Debt to Unrestricted Net Assets (x)	0.8	0.0	0.0	0.0
Margin (%)		3.6	13.8	4.7
Current Ratio (x) ^(b)		NA	NA	NA

^(a) Recalculates FY 2023 audited results to include the impact of this proposed financing.

^(b) Current ratio could not be calculated as the financial statements do not categorize the assets and liabilities into a current portion and a long-term portion.

Financial Discussion

Horizon's income statement appears to exhibit positive operating results each year of the review period.

Horizon demonstrates positive operating margins of 4.7% in FY 2021, 13.8% in FY 2022, and 3.6% in FY 2023 as total revenues increased each year. The increase in total revenues was primarily driven by a significant increase in fees and grants from governmental agencies from approximately \$10.3 million in FY 2022 to over \$16.2 million in FY 2023. According to Horizon, the increase was due to a number of factors. In FY 2022, Horizon's detox program was temporarily closed but re-opened in FY 2023 with \$2.5 million in operating revenue. In FY 2022, one of Horizon's residential programs was temporarily relocated due to flooding damage that required renovations. When the residential program returned to its original facility in FY 2023, it made about \$1 million more in revenue. Also in FY 2023, Horizon received \$1.6 million from the Employee Retention Credit (ERC) as part of the COVID-19 pandemic funding.

Horizon's total expenses also experienced a significant increase from approximately \$11 million in FY 2022 to over \$15.9 million in FY 2023. Horizon's miscellaneous expense increased from over \$381,000 in FY 2022 to nearly \$957,000 in FY 2023 due to construction costs to renovate the flooded residential program facility. The facility maintenance expense grew from approximately \$112,000 in FY 2022 to approximately \$545,000 in FY 2023 as Horizon remodeled bathrooms at two of its facilities to make them compliant with the Americans with Disabilities Act (ADA) standards. Professional services increased from less than \$572,000 in FY 2022 to nearly \$1.1 million in FY 2023 because Horizon hired a third-party company for approximately \$323,000 to help Horizon file for the \$1.6 million ERC through the Internal Revenue Service.

Additionally, in May 2020, Horizon was approved for a Paycheck Protection Program (PPP) loan through the Small Business Administration in the amount of \$2,103,582, which was forgiven in July 2021 and recognized as revenue in FY 2022.

Horizon appears to display a solid balance sheet with a proforma FY 2023 net debt service coverage ratio of 1.4x.

Horizon has demonstrated a strong ability to repay its debts with a net debt service coverage ratio of 24.9x, 59.1x, and 20x in FYs 2021, 2022, and 2023, respectively. Accounting for the new \$2 million HELP II loan and the \$4 million bank loan, Horizon appears to maintain a solid ability to repay its debts with a proforma FY 2023 net debt service coverage ratio of 1.4x. Horizon maintained a minimal level of debt throughout the review period. With the two new loans, Horizon's proforma FY 2023 debt-to-unrestricted net assets ratio increases to 0.8x, demonstrating a manageable level of debt financing in relation to its unrestricted net assets.

Horizon maintained cash and cash equivalents of nearly \$7 million in FY 2021 and over \$6.1 million in FY 2022. In an effort to not have excess cash idle in a bank account but rather earn interest income, Horizon moved approximately \$3.5 million from cash into investments, which accounts for the decrease to nearly \$3.2 million in cash and cash equivalents for FY 2023.

III. UTILIZATION STATISTICS

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

	2023	2022	2021
Totals	2,695 / 25,546	2,154 / 14,613	1,686 / 20,209

IV. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of June 30, 2023	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT			
Notes payable	\$49,615	\$16,866	\$16,866
PROPOSED NEW DEBT			
HELP II loan (2024)			2,000,000
Bank loan (2024)			4,000,000
TOTAL DEBT		\$16,866	\$6,016,866

V. BACKGROUND AND LICENSURE

Background

Horizon is a 501(c)(3) non-profit, community-based organization that was established in 1974 with its first program opening in 1976 establishing sober living support services for men. Today, Horizon operates seven programs across Alameda, Santa Clara, and San Mateo counties, providing alcohol, drug, and mental health related services to adults and adolescents. Horizon's prevention programs help youth develop healthy relationships and live substance-free lives. In addition, Horizon works in the community helping families, businesses, and public agencies recognize and develop responses to substance use disorders, which creates safer and healthier neighborhoods.

One of the seven programs Horizon operates is Chrysalis, a home-like environment treatment program tailored to meet the needs of women ages 18+ living with mental health and substance use disorders and are residents of Alameda County. The Chrysalis program is currently run out of two adjacent multifamily and single-family properties, with capacity for nine clients.

Licensure, Certification and Accreditation

Horizon Services, Incorporated is licensed by the Department of Health Care Services to operate and maintain a number of facilities providing a range of services, including outpatient counseling, residential withdrawal management, and inpatient residential treatment services.

STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. HII-349 in an amount not to exceed \$2,000,000 for Horizon Services, Incorporated, 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-349

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, **Horizon Services, Incorporated** (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 loan to the Borrower, in an amount not to exceed **\$2,000,000** 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. 20-year, two percent (2%) fixed rate loan
2. Minimal second lien position on properties located at 3837, 3839, 3841, 3843, 3845, & 3847 Telegraph Avenue, Oakland, CA 94609, or the project as contemplated, if the addresses are modified through demolition and construction.
3. A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
4. Executed construction contract
5. Verification of approval of other funding sources, that are acceptable to the Authority staff, needed to complete the project
6. Corporate gross revenue pledge
7. Verification of Borrower’s funds to close

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 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 February 28, 2025.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-349

- Finance costs for the construction of a new behavioral addiction treatment facility located at 3837, 3839, 3841, 3843, 3845, & 3847 Telegraph Avenue, Oakland, CA 94609, or the project as contemplated, if the addresses are modified through demolition and construction.