

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Friends of South Central Los Angeles Regional Center for Developmentally Disabled Persons (“FSCLARC”) 2500 S. Western Avenue Los Angeles, CA 90018 Los Angeles County</p> <p>Project Sites: Two properties located in Compton, CA 90220</p> <p>Facility Type: Residential Facility for Persons with Developmental Disabilities</p> <p>Eligibility: Government Code section 15432(d)(19)</p> <p>Prior HELP II Borrower: No</p>	<p>Loan #1 Amount: \$464,444 Loan #1 Term: 20-year fixed Loan #2 Amount: \$379,050 Loan #2 Term: 20-year fixed Authority Meeting Date: December 7, 2017 Resolution Number: HII-310</p>
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Background: FSCLARC, founded in 2006, is a nonprofit organization with the mission to empower developmentally disabled persons and their families by implementing and facilitating programs that improve their quality of life, increase independence, and contribute to a more vibrant community. FSCLARC pursues its mission by creating economic, social, and employment opportunities for individuals with developmental disabilities and their families. FSCLARC provides affordable housing for rent and home ownership for developmentally disabled persons through its Real Estate Services program. FSCLARC also provides supportive services to individuals with developmental disabilities, such as connecting them to education and training, employment and entrepreneurship, and financial literacy and public benefit programs through its Client Support Services program.

Use of Loan Proceeds: Proceeds from each loan will be used to finance the purchase of a residential home to provide permanent housing for individuals with developmental disabilities. One property will be a non-ambulatory specialized residential facility consisting of four bedrooms and two bathrooms for up to four individuals. The other property will be a non-ambulatory specialized residential facility consisting of three bedrooms and two bathrooms for up to three individuals. On-site medical staff will provide ongoing support 24 hours per day at each home.

Financing Structure:

- First lien on each real property located in Compton, CA 90220
- 20-year, two percent (2%) fixed rate loan for each real property
- Loan #1: 240 equal monthly payments of approximately \$2,350 (annual payments of approximately \$28,195)
- Loan #2: 240 equal monthly payments of approximately \$1,918 (annual payments of approximately \$23,011)
- A current appraisal for each real property that is acceptable to the Authority staff
- Corporate gross revenue pledge
- Loan to value ratio not to exceed 95% for each real property
- Verification of borrower funds to close each escrow

Financial Overview: FSCLARC’s income statement appears to exhibit fluctuating results from FY 2014 to FY 2016, but displays strong operations in the most recent fiscal year. FSCLARC’s balance sheet appears solid with a pro-forma debt service coverage ratio of 1.64x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan #1	\$ 464,444	Purchase real property #1	\$ 488,888
HELP II loan #2	379,050	Purchase real property #2	399,000
Borrower funds	<u>58,938</u>	Financing Costs	<u>14,544</u>
Total Estimated Sources	<u>\$ 902,432</u>	Total Estimated Uses	<u>\$ 902,432</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: Escrow Today, Inc.; Camaro, LLC; Congregate Connect, LLC; Absolute Managed Care, Inc.

Staff Recommendation: Staff recommends approval of Resolution Number HII-310 for Friends of South Central Los Angeles Regional Center for Developmentally Disabled Persons in an amount not to exceed \$464,444 for loan #1 and in an amount not to exceed \$379,050 for loan #2, each loan for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell LLP, the Authority’s financial analyst, concur with the Authority’s staff recommendation.

I. PURPOSE OF FINANCING:

The State of California, through the Department of Social Services, has mandated the Community Placement Plan (“CPP”) to develop single family homes as Licensed Residential Care Facilities to support consumers who transition from a State Developmental Center. The CPP is designed to enhance the capacity of the community service delivery system and to reduce the reliance on the use of developmental centers and other restrictive living environments by providing for the development of a variety of resources, which may include housing development, transportation, day program services, and mental health and crisis services.

As part of its statutory responsibility to ensure that individuals with developmental disabilities live in the least restrictive setting appropriate to their needs, FSCLARC plans to purchase three single family homes by June 2018. FSCLARC is currently seeking two HELP II loans in order to acquire two of the three properties.

***Purchase Real Property*..... \$488,888**

FSCLARC will use loan proceeds to purchase a single family home located in Compton, CA. The 1,706 square foot home is brand new construction that was completed in August 2017 and FSCLARC will be the original owner of the property. The home will be a non-ambulatory specialized residential facility consisting of four bedrooms and two bathrooms. The home will be used to provide a safe, affordable, and sustainable home as a residential option for up to four consumers of the South Central Los Angeles Regional Center. Congregate Connect, LLC, which is licensed through the California Department of Social Services, will provide ongoing in-home developmental disability support services 24 hours per day. Residents will be allowed to live in the home as long as they wish, even if the provider of the in-home support services were to change.

The HELP II loan will be secured by a first (1st) lien position on the property. An appraisal completed on September 8, 2017 values the property at \$488,888, resulting in a loan-to-value ratio of 95%.

***Purchase Real Property*..... 399,000**

FSCLARC will use loan proceeds to purchase a single family home located in Compton, CA. The 1,244 square foot property will provide a permanent home for up to three consumers who currently reside at Fairview Developmental Center. The home will be a non-ambulatory specialized residential facility consisting of three bedrooms and two bathrooms. Absolute Managed Care, Inc., which is licensed through the California Department of Social Services, will provide ongoing in-home developmental disability support services 24 hours per day. Residents will be allowed to live in the home as long as they wish, even if the provider of the in-home support services were to change.

The HELP II loan will be secured by a first (1st) lien position on the property. An appraisal completed on October 27, 2017 values the property at \$402,000, resulting in a loan-to-value ratio of 95%.

<i>Financing Costs</i>		<u>14,544</u>
Authority Fees	\$10,544	
Estimated Escrow/Title Fees	<u>4,000</u>	
Total Uses of Funds		<u>\$902,432</u>

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II. FINANCIAL STATEMENTS AND ANALYSIS:

**Friends of South Central Los Angeles Regional Center
For Developmentally Disabled Persons, Inc.
Statement of Activities
(Unrestricted)**

	As of June 30,		
	2016	2015 (restated)	2014
Public Support and Other Revenue			
Public support:			
Contributions	\$ 4,700	\$ 2,006	\$ -
Special events	123,332	96,220	75,178
Total public support	<u>128,032</u>	<u>98,226</u>	<u>75,178</u>
Other revenue:			
Rental income	8,514,461	1,844,917	585,845
Interest income	349,828	237,071	264,942
Cancellation of debt	-	-	15,383,878
Other income	12,798	106	30,997
Total other revenue	<u>8,877,087</u>	<u>2,082,094</u>	<u>16,265,662</u>
Total public support and other revenue	9,005,119	2,180,320	16,340,840
Expenses			
Interest	3,704,183	801,759	551,583
Depreciation	1,618,425	1,080,660	297,277
Amortization	7,721	7,721	91,720
Bad debt	-	-	75,601
Bank charges	-	-	4,278
Consumer assistance	-	-	11,042
Consulting	-	-	68,566
General and administrative	717,607	135,093	10,556
Repairs and maintenance	307,734	4,760	15,884
Utilities	267,723	740	495
Personnel	259,969	5,191	-
Professional fees	54,322	23,437	63,666
Taxes and insurance	54,215	11,658	83,621
Special events	27,849	32,202	-
Miscellaneous	14,144	5,416	2,852
Total expenses	<u>7,033,892</u>	<u>2,108,637</u>	<u>1,277,141</u>
Change in net assets before loss attributable to noncontrolling interest	1,971,227	71,683	15,063,699
Less: loss attributable to noncontrolling interest	4,124	3,365	7,285
Member distributions in CID II*	-	-	(1,423)
Loss on consolidation of CID II*	-	-	(3,914,490)
Change in controlling net assets	1,975,351	75,048	11,155,071
Net assets, beginning of year	11,255,508	11,180,460	25,389
Net assets, end of year	<u>\$ 13,230,859</u>	<u>\$ 11,255,508</u>	<u>\$ 11,180,460</u>

*FSCLARC had a 38% interest in Community Impact Development II, LLC (CID II). On August 21, 2013, the other members of CID II withdrew and transferred all of their right, title and interests in CID II to FSCLARC. FSCLARC became the sole member of CID II and its financial statements were consolidated with FSCLARC as of June 30, 2014.

**Friends of South Central Los Angeles Regional Center
For Developmentally Disabled Persons, Inc.
Statement of Net Position**

	As of June 30,		
	2016	2015 (restated)	2014
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,372,602	\$ 1,729,112	\$ 611,117
Accounts receivable, net	85,430	15,849	118,780
Interest receivable	20,785	30,110	-
Notes receivable - current portion	-	240,000	-
Due from related parties	-	392,970	-
Total current assets	<u>1,478,817</u>	<u>2,408,041</u>	<u>729,897</u>
Noncurrent assets			
Restricted cash	6,168,124	10,002,721	33,783,607
Notes receivable, net	4,321,864	4,321,864	4,561,864
Deferred rent asset	3,827,786	564,649	-
Fixed assets, net	60,104,580	61,129,587	-
Property and equipment	-	-	37,479,493
Deferred charges, net	269,305	277,026	-
Intangible assets	-	-	284,747
Other assets	-	-	60,882
Total noncurrent assets	<u>74,691,659</u>	<u>76,295,847</u>	<u>76,170,593</u>
Total assets	<u>\$ 76,170,476</u>	<u>\$ 78,703,888</u>	<u>\$ 76,900,490</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 9,878	\$ 7,776	\$ 361,729
Construction payable	-	4,135,833	1,927,977
Interest payable	276,809	26,876	-
Notes payable - current portion	192,000	692,000	-
Total current liabilities	<u>478,687</u>	<u>4,862,485</u>	<u>2,289,706</u>
Noncurrent liabilities			
Notes payable, net	8,687,878	8,879,878	9,763,878
Bonds payable, net	53,803,215	53,732,056	53,689,120
Total noncurrent liabilities	<u>62,491,093</u>	<u>62,611,934</u>	<u>63,452,998</u>
Total liabilities	62,969,780	67,474,419	65,742,704
Net assets			
Unrestricted			
Controlling interest	13,230,859	11,255,508	11,180,460
Noncontrolling interest	(30,163)	(26,039)	(22,674)
Total net assets	<u>13,200,696</u>	<u>11,229,469</u>	<u>11,157,786</u>
Total liabilities and net assets	<u>\$ 76,170,476</u>	<u>\$ 78,703,888</u>	<u>\$ 76,900,490</u>
	Proforma		
	FYE June 30, 2016	2016	2015
Debt Service Coverage - Operating	1.64	1.66	1.97
Debt to Unrestricted Net Assets (x)	4.82	4.76	5.63
Margin (%)		21.89	3.29
Current Ratio (x)		3.09	0.50
		2.10	5.68
		92.18	0.32

Financial Discussion – Statement of Activities (Income Statement)

FSCLARC’s income statement appears to exhibit fluctuations from FY 2014 to FY 2016, but displays strong operating results in the most recent fiscal year.

FSCLARC had a one-time entry of approximately \$15.3 million as other revenue for the cancellation of debt in FY 2014. According to FSCLARC’s management, the cancellation of debt was by Morgan Stanley and was completed as part of the initial development of Legacy Plaza, a new headquarters building. The one-time revenue source appears to inflate FSCLARC’s income in FY 2014 as total revenue totaled approximately \$16.3 million, then dropped significantly to approximately \$2.2 million in FY 2015, but then increased considerably to approximately \$9 million in FY 2016. FSCLARC’s main source of revenue, rental income, displayed the most notable increases from approximately \$586,000 in FY 2014, to approximately \$1.8 million in FY 2015, and then to approximately \$8.5 million in FY 2016. According to FSCLARC’s management, the large increase in rental income was due to the South Central Los Angeles Regional Center (“SCLARC”) relocating its headquarters into the newly developed Legacy Plaza and began paying rent to FSCLARC. Rental income is expected to increase slightly in coming years based on FSCLARC’s long-term lease agreement with SCLARC.

FSCLARC’s interest expense more than quadrupled from approximately \$802,000 in FY 2015 to approximately \$3.7 million in FY 2016. According to FSCLARC’s management, the increase in interest expense was due to debt service for bond financing and is expected to average approximately \$3 million per year for future payments.

Overall, FSCLARC has exhibited consistent growth in net assets, which have increased from approximately \$11.2 million in FY 2014 to approximately \$11.3 million in FY 2015, and then to approximately \$13.2 million in FY 2016.

Financial Discussion – Statement of Financial Position (Balance Sheet)

FSCLARC's balance sheet appears solid with a pro-forma debt service coverage ratio of 1.64x.

FSCLARC issued approximately \$55 million in bonds in FY 2014 to finance the construction, renovation, and the furnishing and equipping of a building to be used as a new headquarters. A portion of the bonds was also used to pay in full amounts due under New Money Tax Credit loans, which were used to fund pre-development costs associated with the new headquarters building. Although decreasing, FSCLARC has maintained a solid debt service coverage ratio after the large bond issuances. The debt service coverage ratio has decreased from 2.10x in FY 2014 to 1.97x in FY 2015, and then to 1.66x in FY 2016. FSCLARC's FY 2016 pro-forma debt service coverage ratio with the two new HELP II loans would slightly decrease to 1.64x due to the minimal annual payments for the HELP II loans in relation to FSCLARC's current debt payments.

With the bond issuance, FSCLARC appears to be highly leveraged with a debt-to-unrestricted net assets ratio of 5.68x in FY 2014. FSCLARC's steady increase in net assets in FY 2015 and FY 2016 resulted in a steady decrease in the debt-to-unrestricted net assets ratio to 5.63x and 4.76x, respectively. FSCLARC's FY 2016 pro-forma debt-to-unrestricted net assets ratio would increase slightly to 4.86x with the two new HELP II loans.

Particular Facts to Note:

- FSCLARC's large construction payable of approximately \$4.1 million in FY 2015 was eliminated in FY 2016 with the completion of the construction of a new headquarters building.
- In FY 2014, FSCLARC had a line item for property and equipment of approximately \$37.5 million. In FY 2015 and FY 2016, property and equipment was incorporated into one line item with other fixed assets, which were approximately \$61.1 million and \$60.1 million, respectively. According to FSCLARC's management, FSCLARC changed auditors in FY 2015, which chose to combine property and equipment with other fixed assets as one line item and future audits are expected to present in the same manner.

EXHIBIT 1
UTILIZATION STATISTICS

Clients Served
Fiscal Year Ended June 30,

	2016	2015	2014
Totals	13,051	12,565	12,066

EXHIBIT 2
OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding As of June 30, 2016^a	Estimated Amount Outstanding after Proposed Financing
<i>-EXISTING LONG-TERM DEBT:</i>			
Genesis L.A. Economic Growth Corporation Loan	\$ 4,321,864	\$ 3,154,515	\$ 3,154,515
CDE X Note A	4,321,864	4,321,864	4,321,864
CDE X Note B	1,420,536	1,420,536	1,420,536
City National Bank	344,000	333,174	333,174
California Municipal Finance Authority	3,990,000	3,990,000	3,990,000
California Municipal Finance Authority	10,115,000	10,115,000	10,115,000
California Municipal Finance Authority	40,895,000	40,895,000	40,895,000
<i>PROPOSED NEW DEBT</i>			
<i>CHFFA HELP II Loans (2017)</i>		-	843,494
<i>TOTAL DEBT</i>		\$ 64,230,089	\$ 65,073,583

^a Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

FSCLARC, founded in 2006, is a nonprofit organization whose mission is to empower developmentally disabled persons and their families by implementing and facilitating programs that improve their quality of life, increase independence, and contribute to a more vibrant community. FSCLARC pursues its mission by creating economic, social, and employment opportunities for individuals with developmental disabilities and their families.

FSCLARC's primary focus is on housing, community facilities, and other supportive services for the consumers of the South Central Los Angeles Regional Center (the "Regional Center"). The Regional Center contracts with the California Department of Developmental Services to coordinate services for persons with developmental disabilities. FSCLARC has developed more than \$60 million in real estate assets and its real estate portfolio includes affordable housing units specifically designed for developmentally disabled persons.

FSCLARC has three program components, which include:

- **Real Estate Services** – Acquires and develops affordable housing for rent and home ownership for consumers of the Regional Center. Provides ongoing property management and maintenance services.
- **Client Support Services** – Provides supportive services to consumers of the Regional Center; connecting them to education and training, employment and entrepreneurship, financial literacy, public benefit programs, and other financial support and asset building opportunities.
- **Vendor Support Services** – Provides services to authorized vendors of the Regional Center, including technical assistance, training and topical workshops, and access to micro-loans through the *Friends Small Business Loan Fund*.

Licensure, Certification and Accreditation

Congregate Connect, LLC is licensed by the California Department of Social Services and will provide developmental disability services at the facility.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-310

**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, **Friends of South Central Los Angeles Regional Center for Developmentally Disabled Persons, Inc.** (the “Borrower”), a California participating health institution, has applied to the Authority for two loans through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the two loans 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 two loans to the Borrower in an amount not to exceed **\$464,444** for a term not to exceed **20 years** and in an amount not to exceed **\$379,050** for a term not to exceed **20 years**, each for the purposes described in the application filed with the Authority (the “Projects”), 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 for each real property;
2. First lien position on each real property located in Compton, CA 90220;
3. A current appraisal for each real property that is acceptable to Authority staff;
4. Corporate gross revenue pledge;
5. Loan to value ratio not to exceed 95% for each real property; and
6. Verification of Borrower’s funds to close each 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 loans, 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 loans may 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 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: _____