

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Sanctuary Psychiatric Centers of Santa Barbara (“SPCSB”) 222 W. Valerio St. Santa Barbara, CA 93101 Santa Barbara County</p> <p>Project Site: Same as above</p> <p>Facility Type: Social Rehabilitation</p> <p>Eligibility: A qualified health facility pursuant to Government Code Section 15432(d), (16), (19)</p> <p>Prior HELP II Borrower: Yes, 2004 (The current loan balance is \$211,290 and the monthly payments are current.)</p>	<p>Amount Requested: \$950,000</p> <p>Requested Loan Term: 15-year</p> <p>Authority Meeting Date: August 30, 2012</p> <p>Resolution Number: HII-272</p>
--	---

Background: Sanctuary House of Santa Barbara, Inc. dba Sanctuary Psychiatric Centers of Santa Barbara (SPCSB) was originally established in 1976. SPCSB serves 144 persons with mental illness and alcohol or drug dependencies at its four facilities throughout Santa Barbara County. A detailed description of the services provided by SPCSB can be found in Exhibit 3.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing adjustable rate loan (currently at 5%) in the amount of approximately \$950,000 with Santa Barbara Bank Trust (“SBBT”) to eliminate interest rate fluctuations, and improve future operating cash flows. The private bank loan proceeds were used to purchase three existing properties all of which are currently used as housing for program participants. This refinancing may result in a total interest savings of approximately \$171,000 over the life of the loan

- Financing Structure:**
- 15-year loan.
 - 180 equal monthly payments of approximately \$6,561 (annual payments of about \$78,732).
 - Corporate gross revenue pledge.
 - 1st lien position on real property located at 222 W. Valerio St. Santa Barbara, CA. 93101
 - Borrower will pay off the existing HELP II loan with its cash reserves prior to the close of escrow.
 - Current appraisal required prior to closing the new loan.
 - Loan to value ratio not to exceed 95% (estimated loan to value ratio is 48%).

Financial Overview: SPCSB’s income statement appears to exhibit positive operating results during the review period. SPCSB’s balance sheet also appears solid with a satisfactory debt service coverage ratio and growing net assets. The proforma debt service coverage ratio for the proposed HELP II loan appears to be acceptable at 1.49x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>			
HELP II Loan	\$	950,000	Refinance existing loan	\$	950,000
Borrower Funds		14,875	Financing costs		14,875
Total Estimated Sources	\$	964,875	Total Estimated Uses	\$	964,875

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service documentation. All documentation satisfies the Authority’s requirements.

Parties of Interest: *(Included for the purpose of discerning conflicts of interest)*
Title Company: Chicago Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-272 for Sanctuary Psychiatric Centers of Santa Barbara in an amount not to exceed \$950,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with the Authority’s staff recommendations.

I. PURPOSE OF FINANCING: SPCSB seeks to refinance an existing private bank loan with a 5% variable interest rate to improve its cash flows and lower its interest expense. This refinancing may result in an approximate \$171,000 interest savings over the life of the new loan.

***Refinance an Existing Loan* \$950,000**

SPCSB plans to refinance an existing adjustable rate loan with SBBT in the amount of approximately \$950,000. The original loan was approximately \$1.4 million and the loan proceeds were used for the purchase of three existing buildings located at 115 and 125 W. Anapamu Street and 1136 De La Vina Street in Santa Barbara County. The 115 W. Anapamu Street property is an eight bed apartment building, while 125 Anapamu Street is a 28 unit apartment building. Both sites are residential care facilities for persons with developmental disabilities. The 1136 De La Vina Street property is utilized as the supporting office building for the Day Treatment Program. Collectively, the original purchase price of these three properties was approximately \$2 million.

The proposed new HELP II loan will be secured by a first lien position on the property located at 222 W. Valerio Street. This property is comprised of a 3,000 square foot Victorian residence with six bedrooms and 12 licensed beds and is used for a Residential Treatment Program. In addition, there is an approximate 1,600 square foot office building which houses administrative staff and the Dual Diagnosis Program. Both buildings are located on a half-acre lot.

According to SPCSB’s management, the Valerio property has an estimated current fair market value of \$1.8 million, leading to an estimated loan to value ratio of 50%. The Authority will require a new appraisal to confirm the value of the property as a condition to the close of the new loan.

SPCSB has an existing HELP II loan with an approximate loan balance of \$211,290. SPCSB will pay off this loan with its cash reserves prior to closing the proposed new HELP II loan.

***Financing Costs* 14,875**

Authority Fees	\$11,875
Title and Escrow Fees.....	<u>3,000</u>

***Estimated Uses of Funds* \$964,875**

II. FINANCIAL STATEMENTS AND ANALYSIS

Sanctuary House of Santa Barbara, Inc Consolidated Statement of Activities (Unrestricted)

	For the Year Ended June 30,		
	2011	2010	2009
Support			
County mental health fees	\$ 98,258	\$ 90,465	\$ 222,743
Contributions	196,900	365,318	92,376
SHIA grant	11,734	2,010	30,027
Private housing fees	1,259,740	1,158,750	1,120,673
Day treatment fees/in home supportive services	293,155	316,156	338,264
Rental Income	143,864	136,716	187,791
Rental Income - HUD	332,939	280,914	254,533
Investment income	8,668	7,054	5,246
Unrealized gain/(loss)	4,894	2,824	(8,251)
Miscellaneous	84,806	54,963	45,530
Net assets released from restriction	20,000	205,650	199,350
Total unrestricted support	<u>2,454,958</u>	<u>2,620,820</u>	<u>2,488,282</u>
Expenses			
Salaries and Benefits	1,707,048	1,610,363	1,629,536
Furnishings and equipment	8,019	6,766	7,577
Consulting fees	38,142	20,059	29,513
Professional fees	27,953	14,962	29,573
Maintenance and repairs	45,073	55,466	95,547
Recruitment and outreach	27,432	19,428	19,222
Advertising and promotion	17,555	7,145	4,015
Automobile and travel	20,164	16,762	19,104
Operating	41,070	42,073	44,608
Food	35,612	32,312	34,506
Telephone and utilities	92,968	94,740	95,088
Insurance	32,288	34,425	27,722
Payroll taxes	119,348	111,494	116,542
Rent	2,450	11,200	9,800
Interest	98,015	102,549	107,108
Miscellaneous	8,744	5,495	7,948
Amortization	1,828	1,828	1,828
Depreciation	109,241	94,526	92,078
Bad debt	19,317	4,577	(3,501)
Total operating expenses	<u>2,452,267</u>	<u>2,286,170</u>	<u>2,367,814</u>
Increase in unrestricted net assets	2,691	334,650	120,468
Temporarily Restricted Net Assets			
Support			
Contribution	31,750		45,000
Net assets released from restriction	<u>(20,000)</u>	<u>(205,650)</u>	<u>(199,350)</u>
Increase/(decrease) in temporarily restricted net assets	<u>11,750</u>	<u>(205,650)</u>	<u>(154,350)</u>
Net assets at beginning of year	<u>1,126,851</u>	<u>997,851</u>	<u>1,031,733</u>
Net assets at end of year	<u>\$ 1,141,292</u>	<u>\$ 1,126,851</u>	<u>\$ 997,851</u>

Sanctuary House of Santa Barbara, Inc
Consolidated Financial Position

	As of June 30,		
	2011	2010	2009
Assets:			
Current assets:			
Cash and cash equivalents	\$ 727,532	\$ 675,357	\$ 715,011
Investments	55,073	31,929	29,575
Accounts receivable	27,509	39,818	53,788
Pledge receivable	-	-	160,000
Prepaid insurance	8,374	-	-
Total current assets	818,488	747,104	958,374
Property, plant, and equipment			
Land	953,757	953,757	953,757
Building	2,636,319	2,636,319	2,636,319
Furniture	53,973	53,973	52,714
Equipment	193,061	185,787	174,772
Automobiles	65,218	65,218	65,218
Software	6,163	6,163	6,163
Building improvements	472,493	457,984	99,025
	4,380,984	4,359,201	3,987,968
Less: accumulated depreciation	(1,456,964)	(1,347,723)	(1,253,197)
Total property, plant and equipment	2,924,020	3,011,478	2,734,771
Other assets:			
Cost of Issuance, less accumulated amortization	3,959	4,707	5,455
Loan fees, less accumulated amortization	18,331	19,411	20,491
Total other assets	22,290	24,118	25,946
Total Assets	\$ 3,764,798	\$ 3,782,700	\$ 3,719,091

(continued)

Sanctuary House of Santa Barbara, Inc
Consolidated Financial Position

	As of June 30,		
	2011	2010	2009
Liabilities and Net Assets:			
Current liabilities:			
Account payable	24,528	24,110	64,082
Accrued payroll and related liabilities	60,353	57,045	61,813
Accrued interest	24,357	24,357	24,357
Deferred revenue	46,876	35,583	-
Current portion of vacation payable	34,617	34,525	27,441
Resident deposits	151,394	134,046	108,326
Current portion of long-term debt	120,774	115,883	111,123
Total current liabilities	462,899	425,549	397,142
Long-term debt	2,006,871	2,126,725	2,241,776
Vacation and compensatory time payable	153,736	103,575	82,322
Total liabilities	2,623,506	2,655,849	2,721,240
Net assets:			
Unrestricted:	889,542	886,851	552,201
Temporarily restricted	251,750	240,000	445,650
Total net assets	1,141,292	1,126,851	997,851
Total liabilities and net assets	\$ 3,764,798	\$ 3,782,700	\$ 3,719,091

Financial Ratios:

	Proforma ^(a)			
	FYE June 30, 2011			
Debt Service Coverage (x)	1.49	0.98	2.49	1.50
Debt to Unrestricted Net Assets (x)	1.96	2.39	2.53	4.26
Operating margin (%)		0.11	1.49	4.84
Current Ratio (x)		1.77	1.76	2.41

^(a) Recalculates FY 2011 audited results to include the impact of this proposed financing.

Sanctuary Psychiatric Centers of Santa Barbara

*Total Support for FYE June 30, 2011

<u>Pavors Source</u>	<u>Percent</u>
Private pay	61.3
Rental income	20.6
Donations	7.1
Intercompany transactions	3.9
Grants	2.6
Medi-Cal	2.3
Other counter/federal programs	2.0
Investment income/interest	0.2
Total	100.0

Financial Discussion – Statement of Activities (Income Statement)

SPCSB's income statement appears to exhibit positive operating results for all three fiscal years.

During the review period, SPCSB posted increases in unrestricted net assets in all three fiscal years. According to SPCSB, the increase in unrestricted net assets is largely attributed to continued contributions, miscellaneous support and private housing fees. During FY 2011, the unrestricted net assets declined to \$2,691 from \$334,650 in FY 2010, mainly due to a one-time contribution and the release of a restricted contribution from net assets in FY 2010.

Particular Facts to Note:

- According to SPCSB management, patient visits increased from 753 in FY 2009 to 798 in FY 2011 which led to increased private housing fees from \$1.12 million in FY 2009 to \$1.25 million in FY 2011.
- Total revenues remained stable, while expenses increased moderately from approximately \$2.3 million in FY 2009 to approximately \$2.4 million in FY 2011, mostly due to higher salaries and benefits.
- Contributions for SPCSB witnessed considerable fluctuations from \$92,376 in FY 2009, \$365,318 in FY 2010 and \$196,900 in FY 2011. According to SPCSB's management, these fluctuations were due to a remodeling project in FY 2010 at the Hollister apartment building which resulted in unusually high contributions.

Financial Discussion – Statement of Financial Position (Balance Sheet)

SPCSB's balance sheet also appears solid with an adequate debt service coverage ratio and growing unrestricted net assets.

SPCSB's balance sheet appears to be improving with total net assets growing from \$997,000 in FY 2009 to \$1.1 million in FY 2011, an approximate 14% increase due to positive operating cash flows.

Particular Facts to Note:

- For FY 2011, SPCSB appears to have adequate liquidity with approximately \$727,000 in cash and cash equivalent, resulting in 115 days cash on hand - indicating a healthy level of cash reserves.
- According to SPCSB's management, their funding is stable and SPCSB does not anticipate any revenue cuts in the near future. SPCSB does not rely heavily on grants, contributions and City, County or State funds as approximately 61% of the total of SPCSB's funds is derived from private patient fees.
- Although the debt service coverage ratio for FY 2011 is 0.98x, SPCSB's proforma debt service coverage ratio improves to an acceptable 1.49x, indicating SPCSB should be capable of meeting its new debt obligations. Subsequent to FY 2011, SBCSC paid off its existing NCB loan in July 2012 (approximately \$211,648). In addition, SBCSB plans to pay off its existing HELP II loan. By eliminating these loan payments, SPCSB's debt service coverage should improve.

(Remainder of page left blank intentionally)

EXHIBIT 1

**Clients Served
Fiscal Year Ended June 30
Clients Served/ (Patient Visits)**

	2009	2010	2011
Totals	163/(753)	181/(771)	179/(798)

(Remainder of page left blank intentionally)

EXHIBIT 2

OUTSTANDING DEBT

Sanctuary Psychiatric Centers of Santa Barbara

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2011^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT:</i>			
SANTA BARBARA BANK TRUST, 1996	\$1,425,000	\$952,016	\$0
CDD ^(b) City of SANTA BARBARA, 1997	573,007	344,799	344,799
RA ^(c) City of SANTA BARBARA, 1995	540,000	331,177	331,177
CHFFA ^(d) , 2004	400,000	241,941	0
NCB DEVELOPMENT ^(e) , 2006		211,648	0
<i>-PROPOSED NEW DEBT:</i>			
<i>CHFFA, HELP II 2012</i>			\$950,000
<i>- TOTAL DEBT</i>		<u>\$2,081,581</u>	<u>\$1,625,976</u>

^(a) Includes current portion of long-term debt

^(b) CDD – Community Development Department

^(c) RA – Redevelopment Agency

^(d) CHFFA loan will be paid in full prior to the close of a new HELP II loan.

^(e) NCB loan was paid in full in 2012.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Sanctuary House of Santa Barbara, Inc. dba Sanctuary Psychiatric Centers of Santa Barbara (SPCSB) was originally established in 1976. SPCSB offers a continuum of treatment options for emotionally disabled low income or indigent adults, ages 18-59. SPCSB is a residential treatment facility. The agency gradually expanded services to meet the broad range of client needs by providing comprehensive programming and ongoing follow-up services to provide individualized support and treatment. The following programs and services are offered by SPCSB:

- Sanctuary House: a residential treatment for persons experiencing an acute episode of mental illness.
- Satellite Program: a transitional support for persons no longer needing the intensive structure of a residential treatment facility.
- Graduate Program: a residential facility program for graduates of Sanctuary House that provides maximum independence while maintaining therapeutic structure and support.
- Supported Independent Living Program: a program that offers several low-cost apartment complexes to provide maximum independence while maintaining therapeutic structure and support.
- Outpatient Services: a support program that offers three levels of day services which are partial hospitalization, day treatment, and socialization/recreational activities.
- Vocational Services: a program of services assisting individuals in obtaining the skills necessary to become viable contributing members of the community.
- Counseling Services: a program promoting improved function and communication within the family system as well as educational support.

In addition, SPCSB operates a drug and alcohol programs as well as a dual diagnosis program. Dual diagnosis is a combination of substance abuse and co-occurring psychiatric disorders.

Licensure, Certification and Accreditation

SPCSB is a social rehabilitation facility licensed by the State Department of Social Services, a transitional residential treatment program licensed by the State Department of Mental Health and an outpatient alcohol and/or other drug services licensed by the State Department of Alcohol and Drug Programs.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-272

**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 make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority established a HELP II Loan Program to make loans to finance or refinance, among other things, all or a portion of the cost of acquiring, constructing, expanding, remodeling, renovating, improving, furnishing or equipping health facilities as authorized by the Act;

WHEREAS, **Sanctuary Psychiatric Centers of Santa Barbara** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan for the refinancing of an existing loan for three of its facilities (the “Project”), and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

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 the amount of **\$950,000** for a term not to exceed **15 years** to refinance an existing loan as described in the application filed with the Authority, but solely to the extent there are available proceeds in the HELP II Loan Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year loan;
2. 180 equal monthly payments of approximately \$6,561 (annual payments of about \$78,732);
3. Corporate gross revenue pledge;
4. 1st lien position on real property located at 222 W. Valerio Street, Santa Barbara, CA 93101 (Santa Barbara County);
5. Borrower to pay off its existing HELP II loan of approximately \$242,000 with its cash reserve funds, prior to the closing of the new HELP II loan;
6. Current appraisal for the parcel of real property mentioned in subparagraph no. 4 of this Section to be received by the Authority before the close of the loan; and
7. Loan to value ratio not to exceed 95%.

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 approved pursuant to Section 1 hereof, 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, or that the Executive Director determines shall be funded from the HELP II Loan Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant 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 HELP II Loan Program fund not to exceed those amounts approved by the Authority for the Borrower in Section 1. 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 Authority hereby finds that the loan approved in Section 1 is for a Project eligible for financing pursuant to provisions of the Act.

Section 5. 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 6. This resolution expires six months from the date approved.

Date Approved: _____