CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
STAFF SUMMARY AND RECOMMENDATION

HELP II Loan Program

Strategies For Change
Amendment to Resolution Number HII-191
September 27, 2012

I. Executive Summary

Strategies for Change ("SFC") seeks to modify its existing HELP II loan to alleviate ongoing substantial fiscal challenges. SFC appeared at the June 28, 2012 Authority meeting as an information item to convey the extent of their financial challenges and to request various modifications to their existing HELP II loan. Specifically, SFC proposed alternative options including loan reduction, interest only payments with a balloon in the near future, extension of the term of the loan, or some combination thereof. The board unanimously expressed a disinclination to entertain any type of loan reduction or interest only approach, but directed staff to work with SFC to further explore the extent and nature of SFC's financial situation.

Staff and the Authority's financial analyst, Macias, Gini & O'Connell, LLP have since spent substantial time with SFC to understand its financial situation and have concluded that (1) SFC serves an important health care population in the Sacramento area, (2) delayed payment from Sacramento County has substantially impacted SFC's cash flow and ability to timely service its obligations, (3) SFC appears to have a large amount of long term debt, (4) SFC appears to have lost substantial revenue sources in FYs 2007 and 2008 from which they have not fully recovered, (5) SFC has lost a key member of its executive management for an indeterminate period of time who has been responsible for seeking vital grant funding, and (6) SFC professes it has no intention of closing any of its facilities, scaling back any of its operations or services, or considering bankruptcy.

Accordingly, staff concludes it is in the best interests of the Authority, SFC and the patients SFC serves to help alleviate some of SFC's profound cash flow challenges. Specifically, staff recommends extending the term of SFC's HELP II loan by an additional five[1] years which will have the effect of reducing SFC's monthly debt service by approximately $1,400.00 per month.

[1] The five years will extend the loan maturity date from its current maturity date of November 2022 to November 2027.

II. Background and Analysis

In 2007, the Authority approved a 15-year loan for SFC in the amount of $750,000 to contribute to a roughly $2 million purchase price for SFC's building located at 4343 Williamsborough Drive, Sacramento CA. The HELP II loan is secured by a 2nd lien on the Williamsborough property behind a first lien held by Community Reinvestment Fund (which has a current outstanding balance of approximately $1.3 million). SFC believes they are upside down in this property and estimate the fair market value has substantially dropped to less than or equal to $1 million.

SFC's HELP II loan balance is currently $544,032.08. Monthly payments, inclusive of principal and interest are $5,179.36. SFC has a history of making late payments, but SFC is presently current.

Cash Flow Problems

According to SFC's management, which has been confirmed by staff and the Authority's financial analyst, Macias, SFC has been suffering from significant cash flow problems caused in large part by a delay in Sacramento County's payment of reimbursements. The delayed payments are apparently attributable to problems with the County's conversion to a new electronic claims administration system. SFC has outstanding receivables (in the amount of approximately $222,000) from the County with some dating back to December 2011. Unfortunately, according to SFC, the County has not been responsive to resolving this issue. It is clear these cash flow problems are impacting SFC's ability to pay its monthly obligations.

Revenue Reductions

SFC has also reported experiencing significant cutbacks in revenue sources in FY 2007 and FY 2008 with an approximate $1.3 million reduction in contracts. As a result of these cutbacks, SFC reduced its personnel expenses with layoffs, salary and benefit reductions, position changes, and the utilization of student interns. These measures allowed SFC to eventually come out of their deficit situation in FY 2009, but SFC indicates they are still trying to fully recover from this revenue loss.

High Long-Term Debt Burden

SFC is burdened by a high amount of long-term debt which contributes to SFC's challenged ability to meet its monthly obligations. SFC appears to be relatively highly leveraged with an approximate 8x debt to unrestricted net assets ratio comprised of a low unrestricted net assets level of $248,000 and approximately $2.1 million in debt obligations in FY 2011. For a more detailed financial discussion, please see SFC's attached financials and staff's discussion attached thereto.

Loss of Key Executive Team Member

SFC's Executive Director has taken leave from her position for an unspecified period of time. According to the Executive Director's own testimony at the Authority's June 28, 2012 board meeting, she is the sole and instrumental grant writer for the organization. Her absence may contribute to further difficulties in obtaining future grants. SFC has retained a temporary transitional management team, but it is unclear how effective they will be and how much time it might take them to fully address SFC's short and long term needs.

All of the foregoing issues have led staff to recommend assisting SFC to alleviate some of its cash flow challenges by extending the remaining loan term for five (5) years. This recommendation would assist SFC's with its cash flow over the long term.

III. Recommendation

To help alleviate the significant cash flow problems SFC currently faces, staff recommends the Authority amend Resolution Number HII-191 to extend the remaining loan term by an additional five (5) years, amending the maturity date from November 1, 2022 to November 1, 2027 predicated upon the below conditions. This modification will reduce SFC's monthly debt service payments by approximately $1,400 per month, resulting in a savings of roughly $16,800 per year.

1. Within the next month, SFC must prepare and submit a letter to the County of Sacramento (with a cc to the Authority) that demonstrates an appeal urging the County to forthwith pay all outstanding reimbursement receivables due to SFC. SFC must follow up with a personal appearance during a public session at the next available County of Sacramento Board of Supervisors meeting to make a personal appeal for the same issue. SFC must also submit documentation to the Authority demonstrating its efforts to be placed on the agenda (as a formal item) of an upcoming County of Sacramento Board of Supervisors meeting to address the County payment delays and its impact on SFC until such time as SFC is successful at being placed on the County's agenda.

2. SFC must prepare and submit a comprehensive annual business plan acceptable to the Authority within six months after approval of this amendment to the resolution.

3. SFC must provide the Authority unaudited quarterly financials, financial reports (accrual and cash basis), a brief summary of its financial condition, and its progress towards its business plan for the remainder of the loan or other time period as Authority staff may permit.

4. SFC's failure to comply with any of the above conditions shall cause the extension of the loan term to be revoked, the loan to be re-amortized back to the November 1, 2022 maturity date with a balloon payment due so that the balance can be wholly retired at the November 2022 maturity date.

All other conditions set forth in the resolution remain the same and in full effect. Macias, Gini & O'Connell, LLP, the Authority's financial analyst, concurs with staff's recommendation.

IV. Financial Statements and Discussion

Strategies for Change
Statement of Activities
(Unrestricted)

	For the year ended June 30,		
	2011	**2010**	**2009**
REVENUE			
Grants and contracts	$ 1,739,464	$ 1,651,757	$ 1,888,444
Donated materials and services	403,330	444,157	159,080
Program fees	46,670	52,273	42,533
Miscellaneous income	4,454	29,336	8,445
Total revenues	2,193,918	2,177,523	2,098,502
EXPENSES			
Salaries and related expenses	1,138,126	1,082,483	1,327,674
In kind contributions	383,462	407,914	141,764
Interest	133,491	140,679	147,904
Occupancy	122,791	122,711	170,672
Depreciation & amortization	75,024	61,748	56,055
Insurance	29,215	18,158	23,746
Subcontractors	29,113	43,628	31,775
Drug screening	27,764	21,344	7,346
Equipment rental	19,850	28,492	15,865
Service & Maint.contracts	16,476	10,851	31,373
Professional fees	11,600	14,150	43,678
Other	10,918	8,804	11,328
Telephone	10,715	11,414	16,307
Travel	10,448	9,148	9,007
Dues, license, service fees	7,511	8,136	8,059
Office supplies	6,438	4,854	9,360
Total expenses	2,032,942	1,994,514	2,051,913
Change in unrestricted net assets	**160,976**	**183,009**	**46,589**
Other income	-	37,363	17,808
Total changes in unrestricted net assets	**160,976**	**220,372**	**64,397**
Unrestricted net assets at beginning of year	86,949	(133,423)	(197,820)
Unrestricted net assets end of year	$ 247,925	$ 86,949	$ (133,423)

Payor Source	Percent
Medi-Cal	39
Private Pay	4
Donations	1
County	36
Recurring grants	2
One-time grants	7
Other	11
Total	**100**

Strategies for Change
Statement of Financial Position

	As of June 30,		
	2011	**2010**	**2009**
Assets			
Cash and cash equivalents	$ 113,722	$ 86,154	$ 99,310
Grants receivable	204,824	205,018	158,323
Prepaid expenses	2,324	2,459	2,656
Deposits	8,536	8,536	8,536
Total current assets	329,406	302,167	268,825
Property and equipment, net	2,143,598	2,184,331	2,194,425
Loan fees, net	25,743	26,955	27,863
Total assets	$ 2,498,747	$ 2,513,453	$ 2,491,113
Liabilities & Net Assets			
Accounts payable	$ 60,637	$ 92,176	$ 160,498
Accrued expenses	74,544	111,216	84,657
Accrued interest	9,691	-	10,414
Line of credit	104,138	108,888	145,309
Due to related party	11,770	-	39,966
Current portion of long-term debt	90,812	134,167	98,293
Total current liabilities	351,592	446,447	539,137
Long-term liabilities, less current portion	1,899,231	1,980,058	2,085,399
Total Liabilities	2,250,823	2,426,505	2,624,536
Unrestricted Net Assets	247,924	86,948	(133,423)
Total Liabilities & Net Assets	$ 2,498,747	$ 2,513,453	$ 2,491,113

Financial Ratios:

	2011	**2010**	**2009**
Debt Service Coverage (x)	**1.38**	**1.77**	**1.11**
Debt/Unrestricted Net Assets (x)	**8.03**	**24.32**	**(16.37)**
Margin (%)	**7.34**	**8.40**	**2.22**
Current Ratio (x)	**0.94**	**0.68**	**0.50**
Days cash on hand	**21.20**	**16.27**	**18.16**

Financial Discussion

Audited Financials for FY 2009-2011

A shortage of available cash, combined with a large increase in accounts receivable (money owed by the County), has created a financial condition where SFC is struggling to meet monthly cash needs. While SFC appears to have an adequate current debt service coverage ratio of 1.38x; this ratio alone does not fully portray SFC's cash flow problems. SFC appears to have a low cash position with approximately 21 days cash on hand. In addition, SFC appears to be relatively highly leveraged with an approximate 8x debt to unrestricted net assets ratio comprised of a low unrestricted net assets level of $248,000 and approximately $2.1 million in debt obligations in FY 2011. Generally a debt to unrestricted net assets ratio of less than one is desirable because the higher the ratio the greater the risk. However, SFC does show some improvement in its operations since its large deficit in FY 2008 (where SFC's income statement appeared to have a negative 10.8% operating margin) with operating margins of 2.2% in FY 2009, 8.40% in FY 2010, and 7.34% in FY 2011.

Interim Unaudited Financials for FY 2012

SFC appears to continue to show some operational improvements with an operating margin of approximately 9.56% in FY 2012 compared to 7.34% in FY 2011. SFC's cash inflow appears to fluctuate on a month to month basis with days cash on hand at a low, but nevertheless slightly improved, 34 days (improved from 21 days in FY 2011). Overall, SFC appears to exhibit a slight improvement in its unaudited FY 2012 with a debt service coverage ratio of approximately 1.8x compared to 1.38x in FY 2011. The debt level remains highly leveraged at approximately 4x in FY 2012, but this is a reduction from approximately 8x in FY 2011which may indicate a positive trend from its prior years debt levels.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Amendment to Resolution Number HII-191

APPROVAL OF CERTAIN MODIFICATIONS TO STRATEGIES FOR CHANGE'S EXISTING HELP II LOAN TERMS

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 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, on March 29, 2007 Strategies for Change (the "Borrower"), a California nonprofit corporation and participating health institution, was approved for a Program loan in the amount of $750,000, of which $544,032.08 remains outstanding (Resolution No. HII-191); and

WHEREAS, Borrower has requested modifications to the Program loan, and the Authority staff recommends approval of an amendment to Resolution No. HII-191 as hereinafter set forth;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

<u>Section 1.</u> The Authority approves the modification of the existing loan for the Borrower to extend the maturity date from November 1, 2022 to November 1, 2027. This approval is contingent upon the following conditions:

1. Within the next month, SFC must prepare and submit a letter to the County of Sacramento (with a cc to the Authority) that demonstrates an appeal urging the County to forthwith pay all outstanding reimbursement receivables due to SFC. SFC must follow up with a personal appearance during a public session at the next available County of Sacramento Board of Supervisors meeting to make a personal appeal for the same issue. SFC must also submit documentation to the Authority demonstrating its efforts to be placed on the agenda (as a formal item) of an upcoming County of Sacramento Board of Supervisors meeting to address the County payment delays and its impact on SFC until such time as SFC is successful at being placed on the County's agenda.

2. SFC must prepare and submit a comprehensive annual business plan acceptable to the Authority within six months after approval of this amendment to the resolution.

3. SFC must provide the Authority unaudited quarterly financials, financial reports (accrual and cash basis), a brief summary of its financial condition, and its progress towards its business plan for the remainder of the loan or other time period as Authority staff may permit.

4. SFC's failure to comply with any of the above conditions shall cause the extension of the loan term to be revoked, the loan to be re-amortized back to the November 1, 2022 maturity date with a balloon payment due so that the balance can be wholly retired at the November 1, 2022 maturity date.

Section 2. All other provisions of Resolution No. HII-191 shall remain the same.

Date Approved: ________________________