

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Life Steps Foundation, Inc. (“LSF”) 5839 Green Valley Circle, Suite 204 Culver City, California, 90230 Los Angeles County	Amount Requested:	\$1,000,000
		Requested Loan Term:	15-year fixed
		Authority Meeting Date:	January 29, 2015
		Resolution Number:	HII-290
Project Sites:	2255 South Depot Street, Santa Maria, California 93455 (Santa Barbara County)		
Facility Type:	Adult Day Health Center		
Eligibility:	Government Code section 15432(d)(7) – adult day health center		
Prior HELP II Borrower:	No		

Background: LSF was established in 1983 as a California non-profit organization providing in-home, community-based services to children, teens, adults and elderly with mental, physical or developmental challenges. The primary purpose of the organization is to help people with disabilities acquire the confidence, training, and social and emotional support they need to overcome obstacles related to their disability. LSF provides services in eight languages and focuses on three areas: children, adult, and senior adult services. Currently, LSF is comprised of the corporate division, three business units, and three independent affiliates. In FY 2013-2014, LSF served approximately 12,000 clients.

Uses of Loan Proceeds: The HELP II loan proceeds will be used for the construction of a new adult day health care center, which consists of approximately 10,000 square feet on a .93 acre parcel located in the City of Santa Maria. The site was purchased by LSF with its own funds. The new construction will establish a permanent site for the Santa Maria Wisdom Center, one of LSF’s business units, and increase daily capacity from 55 to 100 participants. The new center will serve clients from Santa Barbara and San Luis Obispo counties.

Financing Structure:

- First lien on the property located at 2255 South Depot Street, Santa Maria, California 93455.
- 15-year fixed rate loan: 180 equal monthly payments of approximately \$6,906 (annual payments of \$82,870).
- Corporate gross revenue pledge.
- Executed construction contract (acceptable to the Authority) that includes a prevailing wage clause.
- A current construction appraisal of the collateralized property acceptable to the Authority.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 53%).
- Verification of borrower funds to close escrow.
- Disbursement of funds in up to three progress payments based on construction progress.

Financial Overview: LSF’s income statement appears to exhibit positive operating results during the review period with a strong debt service coverage ratio, while the balance sheet is very solid with good liquidity and growing net assets. The proforma debt service coverage ratio with the proposed HELP II loan appears to be a solid 4.86x.

Estimated Sources of Funds:

HELP II loan	\$ 1,000,000
Borrower funds	525,000
Grants and Donations	359,376

Estimated Uses of Funds:

Construction	\$ 1,229,716
Real estate purchase	525,000
Equipment	115,160
Financing costs	14,500

Total Estimated Sources

\$ 1,884,376

Total Estimated Uses

\$ 1,884,376

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: *(Included for the purpose of discerning conflicts of interest)*
Fidelity National Title Company, C-Four McCoy LP, Vivek Harris Inc.

Staff Recommendation: Staff recommends approval of Resolution Number HII-290 for Life Steps Foundation, Inc. in an amount not to exceed \$1,000,000 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:

LSF’s overall strategic plan is to increase capacity for its Santa Maria Wisdom Center business unit by constructing a new facility to meet the growing demand for its services. LSF Santa Maria Wisdom Center is an Adult Day Health Care Center (“ADHC”) that provides critical support for frail elderly and disabled adults. The existing ADHC Santa Maria Wisdom Center operates in a leased facility, located in an area that has taken a toll with the economic downturn and has a service capacity of 55 clients. LSF has purchased a vacant parcel and plans to construct a new ADHC. This project will enable LSF to establish a permanent site for the program and increase service capacity by 45 clients. Ownership of the permanent site will allow LSF to eliminate the uncertainty generated by cost fluctuation whenever the lease agreement on the existing facility is up for renewal and it will also eliminate the high costs incurred with a physical site modification LSF must undertake when leasing space in order to comply with mandatory regulations for Americans with Disabilities Act (ADA) compliance. Finally, this opportunity will allow LSF to have an updated facility along with the potential for future equity gains associated with the ownership of the building.

***Construction* \$1,229,716**

LSF plans to use HELP II loan proceeds and internal funds to construct a 10,000 square foot facility with a large recreational area, six (6) offices for social, respite, physical therapy and transportation services, a kitchen, a storage room and 10 ADA compliant bathrooms for clients. The building will consist of environmentally friendly metal construction (steel structures can be recycled indefinitely without loss of property or performance), with elevated ceilings in the activity area and large windows to reinforce the feel of natural light and open space. LSF anticipates starting the construction project in April 2015 with an estimated completion date of September 2015.

The HELP II loan will be secured by a first lien position on the property that will be constructed at 2255 South Depot Street, Santa Maria, CA 93455. According to LSF management, upon completion of the construction, the property will have an estimated market value of \$1.8 million leading to an estimated loan to value ratio of approximately 53%. An “as improved” appraisal will be required prior to closing of the HELP II loan. According to LSF management, the contractor will pay prevailing wages for the project and will comply with the requirements of the California Environmental Quality Act, when applicable.

***Purchase of real estate parcel* 525,000**

In October 2014, LSF purchased a .93 acre vacant real estate parcel located at 2250 South Depot Street, Santa Maria, CA 93455. The location of the parcel is in a developing area, zoned for commercial use.

***Purchase equipment* 115,160**

LSF will use donations, grants, or its own funds to purchase information technology equipment and furniture, tables, chairs, patio furniture and kitchen, equipment.

***Financing Costs*..... 14,500**

Authority Fees	\$12,500
Title and Escrow Fees.....	<u>2,000</u>

Total Uses of Funds \$1,884,376

II. FINANCIAL STATEMENTS AND ANALYSIS

The financials for LSF are combined financial statements of LSF (the corporate division), its business units and affiliates comprising the LSF Group.

Life Steps Foundation, Inc. and Affiliates Combined Statements of Operations (Unrestricted)

	Period Ending June 30,		
	2014	2013	2012
Revenue and other support			
Contract revenues and grants	\$ 7,997,867	\$ 8,160,564	\$ 8,246,945
Patient service revenues	799,443	794,718	1,106,732
Donations and other support	101,080	67,658	123,045
Rent	183,873	179,393	175,195
Other gains and (losses)	155,128	43,822	(23,103)
In-kind contributions	848	5,403	3,168
Interest	563	1,629	6,049
Total revenues and other support before net assets released from restrictions	9,238,802	9,253,187	9,638,031
Net assets released from restrictions	26,903	25,681	68,128
Total revenues and other support	9,265,705	9,278,868	9,706,159
Expenses			
Salaries and wages	5,198,878	5,379,821	5,464,715
Insurance	842,075	769,051	848,671
Taxes and payroll	387,823	398,643	405,574
Rent, building	382,980	378,700	434,387
Consulting	243,823	293,964	353,065
Depreciation and amortization	190,107	174,300	136,022
Contract services	168,375	139,725	199,924
Automobile	158,403	149,464	165,478
Program supplies	134,040	172,768	188,768
Mileage	130,145	149,028	145,745
Payroll fees	122,725	111,030	89,749
Telephone	89,296	93,979	105,212
Bad debt expense	63,156	2,480	24,070
Repairs and maintenance	58,012	49,171	78,780
Travel	55,182	50,958	7,680
Interest	51,040	73,540	92,175
Utilities	45,006	42,099	48,733
Taxes and licenses	35,253	45,518	56,158
Office supplies	33,701	31,734	29,334
Rent equipment	31,177	32,619	39,849
Unemployment compensation	29,141	212,328	312,013
Marketing	29,008	14,002	6,626
Dues	23,515	18,184	10,474
Recruiting	20,989	16,570	28,668
Equipment	15,791	28,783	7,596
Other	86,868	62,082	126,951
Total expenses	8,626,509	8,890,541	9,406,417
Change in unrestricted net assets	639,196	388,327	299,742
Changes in temporarily restricted net assets			
Temporarily restricted revenue	-	-	-
Net assets released from restrictions	(26,903)	(25,681)	(68,128)
Change in temporarily restricted net assets	(26,903)	(25,681)	(68,128)
Change in net assets	612,293	362,646	231,614
Net assets			
Beginning of year	5,084,197	4,721,551	4,489,937
End of year	\$ 5,696,490	\$ 5,084,197	\$ 4,721,551

The financials for LSF are combined financial statements of LSF (the corporate division), its business units and affiliates comprising the LSF Group.

Life Steps Foundation, Inc. and Affiliates
Combined Statement of Financial Position

	Period Ending June 30,		
	2014	2013	2012
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,580,094	\$ 1,397,108	\$ 1,382,882
Investments	2,900,491	2,697,677	2,611,436
Receivables, net of allowance for doubtful accounts	946,341	1,031,926	1,048,234
Prepaid expenses	31,982	56,916	42,849
Total current assets	<u>5,458,908</u>	<u>5,183,627</u>	<u>5,085,401</u>
Noncurrent assets			
Property and equipment, net	1,646,807	1,659,166	1,684,620
Deposits and other assets	122,099	143,946	166,905
Total noncurrent assets	<u>1,768,906</u>	<u>1,803,112</u>	<u>1,851,525</u>
Total assets	<u>\$ 7,227,814</u>	<u>\$ 6,986,739</u>	<u>\$ 6,936,926</u>
Liabilities and net assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 85,666	\$ 79,197	\$ 130,846
Accrued payroll and related expenses	352,579	431,208	340,761
Line of credit	150,000	400,000	806,000
Current portion of long-term debt	37,860	47,306	33,048
Total current liabilities	<u>626,105</u>	<u>957,711</u>	<u>1,310,655</u>
Noncurrent liabilities			
Long-term debt, net of current portion	905,219	944,831	904,720
Total liabilities	<u>1,531,324</u>	<u>1,902,542</u>	<u>2,215,375</u>
Net assets			
Unrestricted	5,352,518	4,713,322	4,324,995
Temporarily restricted	343,972	370,875	396,556
Total net assets	<u>5,696,490</u>	<u>5,084,197</u>	<u>4,721,551</u>
Total liabilities and net assets	<u>\$ 7,227,814</u>	<u>\$ 6,986,739</u>	<u>\$ 6,936,926</u>

Financial Ratios:

	Proforma ^(a)			
	FYE June 30, 2014			
Debt Service Coverage - Operating (x)	4.86	8.95	5.97	4.32
Debt to Unrestricted Net Assets (x)	0.36	0.18	0.21	0.22
Margin (%)		6.90	4.19	3.09
Current Ratio (x)		8.72	5.41	3.88

^(a) Recalculates FY 2014 audited results to include the impact of this proposed financing.

Payors source for FY June 30, 2014

Payor Source	Percent
Medi-Cal	74.0
Veteran Administration	13.8
Uninsured	5.4
CACFP-Food Program	5.2
Donation	1.7
Total	<u>100.0</u>

Financial Discussion – Statement of Activities (Income Statement)

LSF's income statement appears to exhibit positive operating results over the review period.

The change in unrestricted net assets appears to exhibit positive operating results with an increase from \$299,742 in FY 2012, to \$388,327 in FY 2013 and to \$639,196 in FY 2014. According to LSF's management, the moderate increase in unrestricted net assets is primarily attributed to a moderate decrease in revenues due to state budget cuts, and a steady managerial effort to control expenses. One of LSF's programs, Circle of Friends Adult Day Health Center (Circle of Friends) in Inglewood, experienced a decrease in revenues due to a severe budget cut (10%) in reimbursement rates leading to its closure on February 29, 2012. The closing of Circle of Friends contributed to a moderate 4% decrease of the total revenues in FY 2013, while significantly reducing expenditures for consulting by 30%, affiliate contract services by 15% and building rent by 12% from FY 2012 to FY 2014.

Particular Facts to Note:

- Revenues decreased by 4.5% from approximately \$9.7 million in FY 2012 to approximately \$9.3 million in FY 2014. According to LSF's management, the decrease in revenue is attributed to state budget cuts made by contracting agencies and a lack of increase in contractual rates over the past ten years. The state budget cuts decreased the rate of Medi-Cal reimbursements, however, LSF did not decrease the number of service hours for its clients. In addition, Department of Developmental Services (DDS) raised the qualifying criteria and extended the intake period from 30 days to three months. This change resulted in the reduction of funding for its Early Intervention Program. Contracts with DDS and Medi-Cal reimbursements make up over 90% of LSF's revenues.
- Placing emphasis on financial self-sufficiency, LSF's management is striving to generate a diversification of revenue sources through micro enterprises¹. Currently, LSF is in the process of developing three pilot programs with a five year projection of 5% from gross revenues to be generated through sources other than government.
- According to LSF's management, unemployment compensation decreased from \$321,013 in FY 2012 to \$29,141 in FY 2014, due to LSF's strategic change from the tax rated method to the reimbursable method for unemployment fees paid by its affiliates to the Employment Development Department.

Financial Discussion – Statement of Financial Position (Balance Sheet)

LSF's financial strength appears sound with a proforma debt service coverage ratio of 4.86x.

LSF's total unrestricted net assets appear to have increased by approximately 23% from \$4.3 million in FY 2012 to approximately \$5.3 million in FY 2014. LSF's proforma debt-to-unrestricted net assets ratio appears to be .36x indicating moderate leverage usage and its proforma debt service coverage ratio is a solid 4.86x with this proposed financing, indicating LSF should likely be able to repay the HELP II loan.

Particular Facts to Note:

- According to LSF's management, the foundation has maintained a relatively stable cash balance. In FY 2014, LSF had cash and cash equivalents of approximately \$1.6 million, representing approximately 68 days cash on hand, sufficiently above the health industry target of 30 days.

¹ Currently, LSF's micro enterprises consist of product sales such as baked goods, holiday cards, etc.

EXHIBIT 1

UTILIZATION STATISTICS

Service Units / (Clients Enrolled) for Fiscal Year Ended June 30,

	2014	2013	2012
Totals	12,995 / 96	12,222 / 95	10,748 / 94

The Santa Maria Wisdom Center Adult Day Healthcare Center hours of service and clients enrolled figures are annualized within the fiscal year period of July through June.

EXHIBIT 2

OUTSTANDING DEBT

The outstanding debt for LSF is the combined outstanding debt of LSF (the corporate division), its business units and affiliates comprising the LSF Group.

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding ^(a) As of June 30, 2014</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
City National Bank Beverly Hills, Mortgage September 1, 2012	\$ 950,000	\$ 909,476	\$ 909,476
Ford, Vehicle October 13, 2012	57,020	35,695	35,695
- PROPOSED NEW DEBT:			
CHFFA, HELP II Loan			1,000,000
- TOTAL DEBT		<u><u>\$ 945,171</u></u>	<u><u>\$ 1,945,171</u></u>

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

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Life Steps Foundation (“LSF”) began providing children’s services as a partnership between three mental health professionals who identified the need for in-home educational and preventive interventions as an alternative for individuals and families unwilling or unable to receive services in institutional settings and was incorporated as a public non-profit organization in 1983. The organization has evolved from a “mom-and-pop” operation based in the South Bay of Los Angeles County to an enterprise with over 290 employees serving an average of 1,200 clients per month operating in the Southern, Northern and Central Coast areas. LSF provides in-home and community-based services across the life span to those who have developmental and/or physical challenges, the frail elderly, senior citizens and disadvantaged families. Programs are also offered for parents with special needs, minority groups and other high-risk populations challenged by substance abuse, premature birth, prenatal substance exposure, child abuse/neglect and social or economic deprivation.

In June 2008, LSF completed a four-year initiative to decentralize operations by incorporating its programs as independent nonprofits with 501(c)(3) tax status and a local Board of Directors. The LSF group, as the umbrella organization, provides certain supplies and services, and the guidelines, criteria and standards to all affiliated operations, while the Affiliates operate independently using core services from the following support units: Accounting, Human Resources, Development & Marketing, Training & Clinical Quality Management, and IT. The Corporate Services Units function as strategic partners, providing a range of support services and 25 plus years of best practices and expertise to the Affiliates for a fee.

The Board of Directors has governance responsibilities over all of the organization’s activities. The Board of Directors is comprised of 11 members, and each Director can hold office for a maximum of two terms of a three year period. The board members are community members and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The LSF group is comprised of the Corporate Division, its three Business Units and three independent Affiliates.

- Life Steps Southern California Adult Services (Affiliate)
- Life Steps Children & Family Services (Affiliate)
- Life Steps Central California Adult Services (Affiliate)
- Life Steps Social Dynamics (Business Unit)
- Life Steps Santa Maria Wisdom Center (Business Unit)
- Life Steps Senior Home Makers (Business Unit)

Licensure, Certification and Accreditation

LSF is licensed by the California Department of Public Health to operate and maintain an adult day health care center - Santa Maria Wisdom Center (the object of this loan request) located at 1414 N Broadway, Santa Maria, CA 93454. After the construction is completed, LSF will transfer its current license from the leased location to the new permanent site.

LSF also has licenses with the Community Care Licensing Agency, for two other operations - Social Dynamics Day Program for behaviorally involved individuals, Residential Care of the Elderly for the developmentally disabled (RCFE), Orcutt House, a group home with a capacity of six adults, 60 years or older. A third facility is licensed under the Health and Human Services Agency (HHS) as a child day care.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-290

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, **Life Steps Foundation, 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 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 a loan to the Borrower, in an amount not to exceed **\$1,000,000** 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 loan;
2. First lien position on the property located at 2255 South Depot Street, Santa Maria, CA 93455;
3. Corporate gross revenue pledge;
4. Executed construction contract on the property located at 2255 South Depot Street, Santa Maria, CA 93455 acceptable to Authority staff and also includes a prevailing wage clause acceptable to the Authority;
5. The Authority may disburse funds in up to three progress payments, based on construction progress;
6. Disbursement of construction costs shall be dependent upon Borrower’s submission of supporting documentation, as may be requested by Authority staff, evidencing proper expenditure of disbursed funds and detailing the progress of construction to the satisfaction of the Authority;
7. Verification of Borrower’s funds to close escrow;
8. A current “as improved” appraisal of the real property parcel noted in the second condition above that is acceptable to Authority staff;
9. Loan to value ratio not to exceed 95%;
10. Adequate assurance that documentation has been submitted to the appropriate licensing agency towards the end of the construction period; and
11. Proof of licensing shall be provided to the Authority within 90 days of construction completion.

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 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 one year from the date of approval.

Date of Approval: _____