

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Lomi School Foundation (“Lomi”) 534 B Street Santa Rosa, CA 95401 Sonoma County</p> <p>Project Site: 534 B Street, Santa Rosa, CA 95401 (Sonoma County)</p> <p>Facility Type: Community Mental Health</p> <p>Eligibility: A community mental health center pursuant to Government Code section 15432(d) (16)</p> <p>Prior HELP II Borrower: Yes (Balance outstanding: \$547,841; Current on payments)</p>	<p>Amount Requested – Refinance: \$230,000</p> <p>Loan Term – Refinance: 15-year fixed</p> <p>Amount Requested – Renovations: \$100,000</p> <p>Loan Term – Renovations: 20-year fixed</p> <p>Authority Meeting Date: July 30, 2015</p> <p>Resolution Number: HII-296</p>
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Background: Lomi is a non-profit corporation that was founded in 1978. In 1987, Lomi started a project known as the Lomi Psychotherapy Clinic to provide high quality, affordable and accessible mental health care while specializing in a mindfulness-based, integrated model of care. Lomi provides education training for professionals as well as individual, family, group therapy, and education for all in need. Lomi serves Sonoma County and its surrounding communities. In fiscal year 2014, Lomi served 907 clients through 9,996 patient visits.

Uses of Loan Proceeds: The HELP II loan proceeds will be used to refinance a secondary private loan (“Secondary Loan”) provided by Vicki Greenbaum, an individual not associated with Lomi now or during the term of the Secondary Loan. In 2010, Lomi used proceeds from the Secondary Loan, along with a HELP II loan in an amount of \$750,000, to purchase property located at 534 B Street, Santa Rosa, CA 95401. Proceeds from this new financing will also be used for upgrades and renovations of the same facility.

Financing Structure:

- 15-year, three percent (3%) fixed rate for the refinance.
- 180 equal monthly payments of approximately \$1,588 (annual payments of approximately \$19,060).
- 20-year, two percent (2%) fixed rate for renovations.
- 240 equal monthly payments of approximately \$506 (annual payments of approximately \$6,071).
- Corporate gross revenue pledge.
- Second (2nd) lien position on the property located at 534 B Street, Santa Rosa, CA 95401 (the Authority currently holds a 1st lien position).
- Executed construction contract for renovations.
- Verification of Borrower’s funds to close escrow.
- Loan to value ratio not to exceed 95% (estimated combined loan to value ratio of 77%).

Financial Overview: Lomi’s income statement appears to exhibit improving operating results with unrestricted net assets increasing each year. Lomi’s balance sheet appears to exhibit the ability to repay its debt with a pro-forma debt service coverage ratio (DSCR) of 1.33x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 330,000	Refinance existing loan	\$ 230,000
Borrower funds	6,125	Renovations	100,000
		Financing costs	6,125
Total Estimated Sources	\$ 336,125	Total Estimated Uses	\$ 336,125

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: Fidelity National Title Company; and Vicki Greenbaum.

Staff Recommendation: Staff recommends approval of Resolution Number HII-296 for Lomi School Foundation in an amount not to exceed \$230,000 for a term not to exceed 15 years for refinancing, and an amount not to exceed \$100,000 for a term of 20 years for renovations, contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with staff recommendations.

I. PURPOSE OF FINANCING:

As part of its long range plan to reduce occupancy costs to operate its outpatient mental health care program, Lomi purchased its current facility located at 534 B Street, Santa Rosa, CA in 2010, which it has been leasing since 2006. The purchase allowed Lomi to save approximately \$4,000 a month over its existing rental payments. Lomi now seeks to continue improving its ability to provide low-cost and free mental health care to its community by further reducing its occupancy costs with the refinancing of the outstanding Secondary Loan used to complete the property acquisition. Lomi currently makes 8% interest-only payments, and the refinancing will allow Lomi to avoid a balloon payment of \$230,000 due August 19, 2015. Lomi also seeks to perform renovations and upgrades of its facility, which have been deferred since Lomi purchased the property in 2010.

***Refinance existing loan*..... \$230,000**

In June 2010, Lomi was approved for a HELP II loan to purchase a property at 534 B Street in Santa Rosa, CA. The 11,200 square foot building is situated on 0.26 acres, has 20 private offices, a reception area, a file room, and a group activity room. The sale price of the property was \$1 million; however, the maximum loan amount for a HELP II loan was \$750,000. To complete the purchase, Lomi acquired the Secondary Loan in the amount of \$250,000 with an interest rate of 8%. The Secondary Loan matures in August 2015 with a balloon payment due for the remaining balance.

The new HELP II loan will be secured by a second (2nd) lien position on the property located at 534 B Street, Santa Rosa, CA 95401. The Authority currently holds the first lien position on this property. An appraisal acceptable to the Authority will need to be completed prior to closing to reflect a loan-to-value ratio of less than 95%. Lomi’s management estimates the property value at \$1.15 million, reflecting a combined loan-to-value of 77%.

***Renovations*..... 100,000**

Lomi plans to upgrade the existing building located at 534 B Street in Santa Rosa, CA by replacing the existing roof, upgrading the plumbing and electrical systems, resurfacing its parking lot, and installing drought resistant landscaping. Prevailing wage will be paid and included in the construction contract.

***Financing Costs* 6,125**

Authority Fees..... \$4,125

Title and Escrow Fees..... 2,000

Total Uses of Funds..... \$336,125

II. FINANCIAL STATEMENTS AND ANALYSIS

Lomi School Foundation Statement of Activities (Unrestricted)

	For the year ended December 31,		
	2014	2013	2012
Support and revenue:			
Program service fees	\$ 569,469	\$ 566,244	\$ 621,178
Contributions	49,546	30,700	34,538
Special events	10,094	11,054	18,357
Other revenue	3,794	4,907	3,990
Total support and revenue	<u>632,903</u>	<u>612,905</u>	<u>678,063</u>
Expenses:			
Salaries & wages	366,775	370,590	422,527
Employee benefits	17,581	22,817	17,835
Payroll taxes	35,149	36,605	41,840
Workers' compensation insurance	6,635	6,527	7,890
Advertising	3,127	3,378	3,431
Bank & payroll charges	2,781	2,582	2,968
Depreciation & amortization	28,937	29,795	30,650
Dues & subscriptions	8,441	2,215	830
Equipment rental	891	1,443	-
Insurance	11,320	11,199	9,664
Interest expense	40,902	43,604	43,802
Miscellaneous	-	329	1,184
Postage & delivery	2,369	1,513	4,067
Professional fees	22,851	21,955	37,876
Repairs & maintenance	4,357	3,345	3,705
Supplies	11,684	15,720	17,545
Tax & license	2,950	2,903	1,399
Telephone & communication	2,594	2,443	2,321
Utilities	8,654	9,091	10,507
Total expenses	<u>577,998</u>	<u>588,054</u>	<u>660,041</u>
Change in unrestricted net assets	54,905	24,851	18,022
Amounts released from restrictions	1,450	5,050	-
Net assets, beginning of year	<u>126,830</u>	<u>96,929</u>	<u>78,907</u>
Net assets, end of year	<u>\$ 183,185</u>	<u>\$ 126,830</u>	<u>\$ 96,929</u>

*Support and Revenue for FYE December 31, 2014

<u>Payor Source</u>	<u>Percent</u>
Program service fees	50
Medi-Cal & Medicare ¹	40
Contributions	8
Other	2
Total	<u>100</u>

¹Medi-Cal & Medicare revenue is included in Program service fees revenue

Lomi School Foundation
Statement of Financial Position

Assets	As of December 31,		
	2014	2013	2012
Current assets:			
Cash and equivalents	\$ 35,059	\$ 25,044	\$ 16,566
Total current assets	35,059	25,044	16,566
Fixed assets, at cost	991,702	1,018,099	1,039,618
Loan costs, net	8,009	10,549	13,089
Total assets	<u>\$ 1,034,770</u>	<u>\$ 1,053,692</u>	<u>\$ 1,069,273</u>
Liabilities and Net Assets			
Current liabilities:			
Current portion of long term debt	275,548	119,203	92,899
Current portion of capital lease obligation	5,301	4,624	4,033
Total current liabilities	280,849	123,827	96,932
Notes payable, net of current portion	565,197	790,746	859,948
Capital lease obligation, net of current portion	5,539	10,839	15,464
Total liabilities	<u>851,585</u>	<u>925,412</u>	<u>972,344</u>
Net assets:			
Temporarily restricted	-	1,450	-
Unrestricted	183,185	126,830	96,929
Total net assets	<u>183,185</u>	<u>128,280</u>	<u>96,929</u>
Total liabilities & net assets	<u>\$ 1,034,770</u>	<u>\$ 1,053,692</u>	<u>\$ 1,069,273</u>

Financial Ratios:

	Proforma (a)			
	<u>FYE December 31, 2014</u>			
Debt Service Coverage (x)	1.33	0.76	0.70	0.93
Debt/Unrestricted Net Assets (x)	5.17	4.62	7.26	9.99
Margin (%)	8.68	4.05	4.05	2.66
Current Ratio (x)	0.12	0.12	0.20	0.17

(a) Recalculates FY2014 audited results to include the impact of this proposed financing

Financial Discussion – Statement of Activities (Income Statement)

Lomi's income statement appears to exhibit improving operating results with unrestricted net assets increasing each fiscal year.

Lomi's end-of-year net assets displayed strong growth with an increase of 89% over the review period due to positive operating results. Although total revenue decreased 6.4% during this period, Lomi's total expenses decreased at an even greater rate of 12.4%. As a result, Lomi's net assets grew from approximately \$97,000 in FY 2012 to approximately \$127,000 in FY 2013, and then up to approximately \$183,000 in FY 2014. According to Lomi's management, revenue decreased due to a planned contract expiration at the end of calendar year 2012 with Santa Rosa Junior College (SRJC). The contract, which Lomi maintained for nine years, allowed Lomi to manage the Student Psychological Services program. Since implementation of the program, Lomi was aware that the contract would expire and that SRJC's long-term plan was to hire on-site Psychologist employees to manage the program. The decrease in revenue was partially offset with new revenue from a contract with the Mental Health Services Act Workforce, Employment, and Training Program, which began in calendar year 2012.

Particular Facts to Note:

- Program service fees decreased from approximately \$621,000 in FY 2012 to approximately \$566,000 in FY 2013, a change of about 9%. In FY 2014, Program service fees revenue remained stable with a slight increase to approximately \$569,000. According to Lomi's management, the decrease from FY 2012 to FY 2013 was primarily due to the expiration of the service contract with SRJC. According to Lomi's management, Lomi anticipates Program service fee income to increase from Medicare, regular client fees, and reimbursements from other agencies such as Child Protective Services, Victims Assistance, Beacon Medi-Cal, and the North Bay Regional Center.
- Contributions initially declined from approximately \$35,000 in FY 2012 to approximately \$31,000 in FY 2013, but rebounded to approximately \$50,000 in FY 2014, an overall increase of about 44%. According to Lomi's management, Lomi experienced decreases in the amounts that some of its long-term donors made in FY 2013. Lomi was able to successfully replace those donations in FY 2014 while also increasing participation in annual fundraising events.
- Salaries and wages declined each year, from approximately \$423,000 in FY 2012 to approximately \$371,000 in FY 2013, and then to approximately \$367,000 in FY 2014. According to Lomi's management, the decrease in salaries and wages was also primarily due to the expired contract with SRJC.
- Professional fees decreased about 40%, from approximately \$38,000 in FY 2012 to approximately \$23,000 in FY 2014. According to Lomi's management, Lomi experienced two one-time expenses in FY 2012 leading to the higher expense for that fiscal year. The first increased expense was for costs due to a certified public accounting firm in preparation for Lomi's 2012 fiscal year audit, which was significantly more expensive than subsequent audits, and for costs associated with changing accounting programs. The second expense was due to the beginning of a Mental Health Services Act Contract, which necessitated increased training and consultation costs associated with building the program.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Lomi's balance sheet appears to exhibit the ability to repay its debt with a pro-forma debt service coverage ratio of 1.33x.

In order to complete the purchase of its current facility in calendar year 2010, Lomi obtained a HELP II loan through the Authority as well as the Secondary Loan, which carries a balloon payment due in August 2015. Largely due to the balloon payment, the current portion of Lomi's long-term debt significantly increased from approximately \$119,000 in FY 2013 to approximately \$276,000 in FY 2014. Lomi's DSCR was significantly affected by the increasing current portion of its long-term debt. Lomi's DSCR decreased from 0.93x in FY 2012 to 0.7x in FY 2013, and then increased slightly to 0.76x in FY 2014. Refinancing the Secondary Loan and eliminating the balloon payment results in a pro-forma debt service coverage ratio of 1.33x as Lomi's annual debt service payments would be significantly reduced. According to Lomi's management, refinancing into a conventional loan with the Authority offers Lomi a great opportunity to achieve long-term stability while reducing its cost of care. Lomi has steadily lowered its debt-to-unrestricted net assets ratio each year, from 9.99x in FY 2012 to 4.62x in FY 2014. The pro-forma debt-to-unrestricted net assets ratio increases slightly to 5.17x with the new financing.

Particular Facts to Note:

- Cash and equivalents increased each of the three fiscal years of the review period, from approximately \$17,000 in FY 2012 to approximately \$25,000 in FY 2013, and then to approximately \$35,000 in FY 2014, an overall gain of 111.6%. According to Lomi's management, as part of its long-term goals, Lomi has and continues to actively increase its cash reserve in order to responsibly protect the company from any unforeseen expenses with the building or with any other situation that may arise.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served / (Patient Visits)

**Lomi School Foundation
Fiscal Year Ended December 31,**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Totals	907 / (9,996)	962 / (10,139)	893 / (8,875)

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EXHIBIT 2

OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding^(a) As of December 31, 2014</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA HELP II Loan October 1, 2010	\$ 750,000	\$ 574,245	\$ 574,245
Private Individual Loan (Vicki Greenbaum) October 1, 2010	265,000	230,000	-
Private Individual Loan (Thomas Pope) December 31, 2008	36,500	36,500	36,500
-PROPOSED NEW DEBT:			
CHFFA HELP II Loan, 2015			330,000
-TOTAL DEBT		<u><u>\$ 840,745</u></u>	<u><u>\$ 940,745</u></u>

(a) Includes current portion of long-term debt

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EXHIBIT 3

BACKGROUND AND LICENSURE

Background

The Lomi School was founded in 1970 to provide quality education to the healing arts profession. The Lomi School Foundation was founded in 1978 as a non-profit corporation to further the work of Lomi School. Lomi Psychotherapy Clinic (“Lomi Clinic”) began in 1987 as a project of the Lomi School Foundation to provide affordable psychotherapy services to those in need in Sonoma County and the surrounding communities including Napa, Lake, Mendocino, and Marin counties. The Lomi Clinic has a staff that includes 30 licensed and intern therapists who provide counseling to individual adults and children, couples, and families. The Lomi Clinic also provides group therapy and educational classes to members of its community.

The Lomi Clinic contracts with Sonoma County Behavioral Health Department (SCBHD) in a Mental Health Services Act (MHSA) Workforce, Employment, and Training (WET) program. SCBHD primarily refers Medi-Cal patients to the program who are moderate to severe in acuity. The goal of the program is to help clients stabilize, prevent crisis, and to move them to a lower level of care or to the most appropriate next stage of treatment.

Licensure, Certification and Accreditation

Lomi is licensed by the State of California Department of Public Health to operate and maintain a Psychology Clinic, known as the Lomi Psychotherapy Clinic, located at 534 B Street, Santa Rosa, CA 95401.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-296

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, **Lomi School Foundation** (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 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 **\$230,000** for a term not to exceed **15 years** for the purpose of refinancing, and a second loan in an amount not to exceed **\$100,000** for a term not to exceed **20 years** for the purpose of renovations as each are 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, three percent (3%) fixed rate for refinance;
2. 20-year, two percent (2%) fixed rate for renovations;
3. Second (2nd) lien position on property located at 534 B Street, Santa Rosa, CA 95401;
4. Loan to value ratio not to exceed 95%;
5. Executed construction contract for renovations;
6. Corporate gross revenue pledge; and
7. Verification of Borrower’s funds to close 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 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 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. 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: _____