CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY

Applicant: Advent Group Ministries, Inc. ("Advent")
90 Great Oaks Blvd. #108
San Jose, CA 95119
Santa Clara County

Amount Requested: $430,000
Requested Loan Term: 15-year fixed
Authority Meeting Date: February 25, 2016
Resolution Number: HII-298

Project Sites: 1200 W. Edmundson Avenue, Morgan Hill, CA
4305 Arpeggio Avenue, San Jose, CA
Facility Type: Group Home
Eligibility: Government Code section 15432(d)(13)
Prior HELP II Borrower: Yes (2004 with an outstanding balance of $129,680 as of January 27, 2016)

Background: Advent is a non-profit corporation established in 1985, which operates recovery group homes that provide residential treatment to drug and alcohol addicted and emotionally distressed teens in Santa Clara County. Advent has served approximately 50 clients on an annual basis between the ages of 15-20 years, with an average age of 17.5 years Advent also provides foster care, recovery outpatient programs, substance abuse prevention programs, safe homes to mothers who seek to maintain sobriety and human trafficking survivors and counseling centers.

Use of Loan Proceeds: Loan proceeds will be used to refinance a loan from The Kudenov Living Trust and the 2004 HELP II loan. The combined new loan is expected to save Advent approximately $70,000 over the life of the loan.

Financing Structure:
- First lien on the property located at 1200 W. Edmundson Ave. Morgan Hill, CA
- 15-year, three percent (3%) fixed rate loan
- 180 equal monthly payments of approximately $2,969 (annual payments of approximately $35,634)
- A current appraisal that is acceptable to the Authority
- Corporate gross revenue pledge
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is approximately 33%)
- Verification of borrower funds to close escrow

Financial Overview: Advent's income statement appears to exhibit improving operating results over the review period, and its balance sheet appears steady with a pro-forma debt service coverage ratio of 1.36x.

Estimated Sources of Funds:			**Estimated Uses of Funds:**		
HELP II Loan	$	430,000	Refinance Kudenov Living Trust	$	300,000
Borrower Funds		6,375	Refinance 2004 HELP II Loan		130,000
			Financing Costs		6,375
Total Estimated Sources	$	436,375	**Total Estimated Uses**	$	436,375

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: Chicago Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HI-298 for Advent Group Ministries, Inc. in an amount not to exceed $430,000 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:

Advent is requesting a HELP II loan to refinance an existing private loan from the Kudenov Living Trust (the "Kudenov Loan") and its existing 2004 HELP II loan. Refinancing the two loans will allow Advent to consolidate debt, increase cash flow, and lower its minimum monthly payment from approximately $4,000 to approximately $3,000. Advent is not receiving timely reimbursement payments from Santa Clara County ("County") resulting in late payments to the Authority. With this refinancing, Advent will be able to make timely payments to the Authority without relying on the County. Advent expects the refinancing will save approximately $70,000 over the life of the loan.

Refinance Kudenov Living Trust **..**	***$300,000***

In FY 2012, Advent experienced a loss with the sale of one of its properties and the closure of an underutilized program. With the drop in revenue, Advent restructured one of their facilities to serve a wider population, which created the Nest program. The Nest program is the first residential facility in the Santa Clara County specifically designed to provide counseling and education to young female survivors of human trafficking. Advent obtained the Kudenov Loan in January 2013 in the amount of $300,000 for capital improvements, including renovations, facility security, landscape, technology and to purchase furniture. The loan has an interest rate of 5.5% and a balloon payment that was due in December 2015. Advent currently continues to pay their regular monthly payment of $1,703.37, with the Trustee's knowledge that the loan will be paid off with this refinancing. The new HELP II loan will reduce the interest rate to 3%.

Refinance 2004 HELP II loan… **...**	**130,000**

In August 2004, Advent was approved for a HELP II loan to refinance the STARTS 1992 Series A Bonds ("STARTS"), which was a pooled bond program. As borrowers exited the STARTS program, the costs to maintain the bond reserve account for the remaining borrowers increased. Due to the increasing costs, the Authority collapsed the program and allowed Advent to refinance its portion of the bonds with a HELP II loan. The HELP II loan lowered Advent's interest rate from 7.25% to 3%. Proceeds from the STARTS program were used to purchase five residential treatment centers and to refinance prior debt.

The new HELP II loan will be secured by a first (1^{st}) lien position on the property located at 1200 W. Edmundson Ave, Morgan Hill, CA. Advent's management estimates the property value at $1.3 million, leading to a loan-to-value of approximately 33%. 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%.

Financing Costs **..**		***6,375***
Authority Fees	$5,375	
Title and Escrow Fees	1,000	
Total Uses of Funds		**$436,375**

FINANCIAL STATEMENTS AND ANALYSIS:

Advent Group Ministries, Inc.
Statement of Activities
(Unrestricted)

	As of December 31,		
	2014	**2013**	**2012**
Revenue and Other Support*			
Support, Revenue, and Grant			
Social Services Contracts	$ 1,528,989	$ 1,471,924	$ 1,716,481
Counseling Income	1,036,794	748,020	599,816
Nest and Refuge Programs	263,438	73,851	35,805
Fund Raising, Donations and Contributions	547,738	563,161	505,622
Other Income	233	729	31,291
Loss on Sale of Property	-	-	(156,257)
Investment Income	18,887	19,488	36,631
Total Unrestricted Support, Revenue and Gains	3,396,079	2,877,173	2,769,389
Expenses			
Salaries and Wages	2,080,685	1,821,563	2,071,660
Payroll Taxes	150,417	130,400	153,095
Employee Benefits	186,939	181,004	140,297
Direct Program Expenses	100,487	106,255	58,251
Food	45,562	38,953	41,334
Education and Training	8,538	21,072	29,630
Building and Equipment	68,944	48,990	79,065
Administration Operation	276,229	109,710	156,024
Mortgages and Property Tax	21,043	23,076	13,438
Insurance	37,233	40,684	31,019
Rent and Utilities	122,231	138,255	153,735
Professional Services	35,082	24,788	26,046
Vehicle Expenses	40,150	44,048	70,221
Travel and Transportation	63,784	43,953	36,369
Depreciation Expenses	53,666	54,872	63,604
Other Miscellaneous Expenses	2,583	24,611	-
Bad Debt Expenses	33,480	-	-
Fund Raising Expenses	52,931	52,637	61,738
Total Expenses	3,379,984	2,904,871	3,185,526
Increase (decrease) in Net Assets	**16,095**	**(27,698)**	**(416,137)**
Net assets at beginning of year	673,617	701,315	1,117,396
Prior period adjustment	(21,353)	-	56
Net assets at end of year	**$ 668,359**	**$ 673,617**	**$ 701,315**

***Revenue and Other Support for FYE December 31, 2014**

Payor Source	Percent
Social Service Contracts	45
Counseling Income	31
Fund Raising, Donations, & Contributions	16
Other	8
Total	100

Advent Group Ministries, Inc.
Statement of Financial Position
(Unrestricted)

	As of December 31,		
	2014	**2013**	**2012**
Assets			
Current Assets			
Cash and Cash Equivalents	$ 151,423	$ 104,938	$ 28,283
Accounts Receivable (Net)	403,223	449,527	395,364
Prepaid Expenses	8,725	-	1,250
Employment Advances	1,450	2,350	1,600
Total Current Assets	564,821	556,815	426,497
Fixed Assets			
Property and Equipment	1,899,914	1,899,914	1,866,498
Less: Accumulated Depreciation	(906,772)	(853,107)	(802,358)
Net Fixed Assets	993,142	1,046,807	1,064,140
Other Assets			
Investments	69,130	20,378	13,825
Security Deposits	5,100	5,100	5,100
Total Other Assets	74,230	25,478	18,925
Total Assets	$ 1,632,193	$ 1,629,100	$ 1,509,562
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable	$ 102,876	$ 139,772	$ 86,232
Accrued Expenses	185,515	153,493	140,557
Other Refunds and Deposits	1,600	900	8,086
Line of Credit	143,619	107,971	27,630
Credit Card Payable	47,707	38,692	-
Current Portion of Note Payable	34,620	27,046	31,087
Total Current Liabilities	515,937	467,874	293,592
Long -Term Liabilities			
Notes Payable Net of Current Portion	447,897	487,609	514,655
Total Long-Term Liabilities	447,897	487,609	514,655
Total Liabilities	963,834	955,483	808,247
Net Assets			
Total Unrestricted Net Assets	668,359	673,617	701,315
Total Liabilities and Net Assets	$ 1,632,193	$ 1,629,100	$ 1,509,562

	Proforma (a) FYE December 31,2014	**2014**	**2013**	**2012**
Debt Service Coverage - Net (x)	1.36	1.89	0.93	(8.54)
Debt to Unrestricted Net Assets (x)	0.79	0.72	0.76	0.78
Margin (%)		0.47	(0.96)	(15.03)
Current Ratio (x)		1.09	1.19	1.45

(a) Recalculates FY 2014 audited results to include the impact of this proposed financing
(b) Debt Service Coverage includes the loan obtained in FY 2015

Financial Discussion – Statement of Activities (Income Statement)

Advent's income statement appears to exhibit improving operating results over the review period.

Advent appears to display improving operating results, moving from a loss of approximately $416,000 in FY 2012 to a loss of approximately $28,000 in FY 2013, and then to a profit of approximately $16,000 in FY 2014. According to Advent's management, a large portion of the loss in FY 2012 was due to a loss of approximately $156,000 on the sale of donated property. The property was listed for sale prior to the recession in 2008, and as the value of the property continued to decline during the recession, Advent held off on selling the property. In FY 2012, Advent's board made the decision to accept an offer even though it was at a loss. Advent also closed an under-utilized home in FY 2012, but the financial impact of letting staff leave through attrition accounts for the continued losses in FY 2013. In an effort to increase occupancy rates, Advent restructured their programs and turned the under-utilized group home into a residential facility for the Nest Program. Advent's operations displayed improvement as total revenue grew at a faster pace than total expenses. Advent's total revenue increased by 22.6%, from approximately $2.8 million in FY 2012 to $3.4 million in FY 2014, while total expenses increased by 16.4%, from approximately $3.2 million in FY 2012 to approximately $3.4 million in FY 2014.

Particular Facts to Note:

- Counseling income increased from approximately $600,000 in FY 2012 to approximately $1 million in FY 2014, a 72.9% increase. According to Advent's management, Advent had increased their client base by two fold by increasing the Drug Medi-Cal certified outpatient sites from two to seven, secured several contract from the Santa Clara County Office of Education to provide school-based counseling services and was awarded two contracts to provide drug and alcohol prevention services to over 800 students across different school districts.

- Advent's Social Services Contracts, which contributes to nearly half of the overall revenue, dropped 14.2 % in FY 2014 of approximately $1.5 million from FY 2012 of approximately $1.7 million. According to Advent's management, State realignment of funds altered the breakdown of state-to-federal-to-county funding ratios. The Santa Clara County Department of Alcohol and Drug Services (the "County") also briefly decreased Advent's short-term contracted beds from seven to six, which contributed approximately $80,000 of the decrease. The County now contracts with Advent for eight beds.

- Salaries and wages, which make up over 60% of total expenses, decreased from approximately $2.1 million in FY 2012 to approximately $1.8 million in FY 2013. According to Advent's management, this decrease was due to the closure of one of its residential facilities in FY 2012. Although salaries decreased in FY 2013, employee benefits increased due to an increase in medical premiums and workers' compensation. Salaries and wages increased in FY 2014 as a result of increased usage of the Nest and Refuge Programs, which helps mothers maintain sobriety and provides homes to human trafficking survivors.

- Advent had no bad debt expenses in FY 2012 and FY 2013, but then had a bad debt expense of approximately $33,000 in FY 2014. According to Advent's management, all group homes were awarded funds from the State in a lawsuit over the increased cost of living expenses for residents in group homes. The bad debt expense was due to an overage from the State that Advent had to repay.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Advent's balance sheet appears steady with a pro-forma debt service coverage ratio of 1.36x.

Advent's total unrestricted net assets appear to have slightly decreased over the review period, from approximately $700,000 in FY 2012 to approximately $674,000 in FY 2013, and then to approximately $668,000 in FY 2014. The decrease in net assets is a result from Advent's restructuring of their programs in FY 2012 due to decrease in revenues and the bad debt expenses of approximately $33,000, which was money that Advent returned the State for over reimbursement. Advent appears to display great improvements in its debt service coverage ratio, from a negative 8.54x in FY 2012 to a positive 0.93x in FY 2013, and then finally to 1.89x in FY 2014. This positive trend is due to the increase in revenues from approximately 22.6% from FY 2012 to FY 2014 while expenses only increased approximately 16.4% during the same period. With the refinancing of the two loans plus the line of credit loan taken out in FY 2015, Advent's pro-forma debt service coverage ratio will decrease to 1.36x. Taking into account the additional debt, Advent appears to display the ability to repay the HELP II loan. Advent also anticipates a continued positive financial outlook with new funding from AB 403[1] and the 1115 Drug Med-Cal[2] waiver legislation.

Particular Facts to Note:

- Cash and cash equivalents greatly increased from approximately $28,000 in FY 2012 to approximately $105,000 in FY 2013, and then to approximately $151,000 in FY 2014. According to Advent's management, in December 2014, Advent raised approximately $100,000 in community support, which contributed to the significant increase.

[1] Assembly Bill 403 (AB 403) was passed by the California Legislature and becomes effective January 1, 2017. AB 403 reforms the current structure for group homes, foster family agencies and the foster care system with the establishment of State Department of Social Services to regulate, license, and establish training requirements for out-of–home facilities and entities. Services and support will be extended to focus on providing specified mental health service and transitions process between Short Term Residential Treatment Centers (previously known as group homes) or Foster Family Agencies to permanent home placements.

[2] 1115 Drug Medi-Cal waiver also known as California's Bridge to Reform waiver was approved by Centers of Medicare and Medicaid Services and became effective January 1, 2016. The Waiver expands coverage and improves infrastructure for funding to four major components: Low Income Health Program, the Delivery System Reform Incentive Pool, Mandatory Managed Care for Seniors and Persons with Disabilities and pilot programs for children in the California Children's Services. This waiver will not only increase coverage to the number of uninsured but also increase the type of benefits such as emergency care, physical therapy, mental health and more.

- Advent's outstanding balance on its line of credit greatly increased from approximately $28,000 in FY 2012 to approximately $108,000 in FY 2013, and then to approximately $144,000 in FY 2014. According to Advent's management, the line of credit increased as Advent used the funding to help during the closure of one of the homes in FY 2012, and the line of credit was used further in FY 2014 to staff new programs. In 2015, Advent closed the line of credit and refinanced the remaining balance into a four year loan. This loan is included in the pro-forma debt service coverage of 1.36x, which shows that Advent would still be able to repay the loan and the new HELP II loan.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served / (Patients Visits)
for Fiscal Year Ended December 31,

	2014	**2013**	**2012**
Totals	75 / (5,839)	52 / (4,745)	50 / (4,601)

EXHIBIT 2

OUTSTANDING DEBT

Date Issued		Original Amount		Amount Outstanding [a] As of December 31, 2014		Estimated Amount Outstanding after Proposed Financing
-EXISTING LONG-TERM DEBT:						
CHFFA HELP II Loan (2004)	$	400,000	$	160,828	$	-
Kudenov Living Trust Loan (2013)		300,000		291,689		-
Meriwest Credit Union (2015)[b]		113,495		-		95,760
Officer's Loan (2005)[c]		30,000		30,000		-
- PROPOSED NEW DEBT:						
CHFFA HELP II Loan (2016)				**-**		**430,000**
- TOTAL DEBT			**$**	**482,517**	**$**	**525,760**

[a] Includes current portion of long-term debt

[b] Subsequent to FY 2014, Advent refinanced the line of credit into a four year loan

[c] Non-interest bearing note payable to one of Advent's directors. Loan was forgiven in FY 2015

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Advent is a non-profit corporation established in 1985, which operates a residential treatment program for adolescents with substance abuse and mental health disorders. Since then, Advent has grown to encompass comprehensive family counseling centers, a foster care program for children of all ages, in-school drug prevention programs, and safe homes for both mothers maintaining sobriety and human trafficking survivors. Advent currently has five residential facilities located in San Jose, Morgan Hill, and San Martin.

Advent's Residential Recovery Program is a live-in treatment program for adolescents who are chemically dependent. Advent offers an array of treatments for co-occurring disorders, also known as dual disorders, in which patients who have substance use condition also have mental health conditions. The program includes group counseling, drug and alcohol education, recreational activities, and schooling. In a 2014 report, participants were 72% male and 28% female with more than half identified as Hispanic/Latino. All of the clients were referrals from the Department of Alcohol and Drug Services and by the Juvenile Probation Department. From this program, 92% of participants had an increase in school attendance and 97% decrease in substance use.

The Nest is one of Advent's newest programs, which provides residential shelter for girls ages 12-17, who are survivors of commercial sexual exploitation. The Nest program is specifically designed to provide professional counseling and education to heal and prepare for a future of independence and self-sufficiency. Clients are referred through the Social Service Departments and Probation Departments throughout the state. Advent estimates that the need has become great and there is less than one percent of the needed capacity to serve these kids. The primary support for this program is provided by the State Department of Social Services Community Care Licensing division as a Level 10 group home facility.

Advent's continuum of programs provides services to people of all ages, all income levels, men, women and adolescents. Its clients include individuals with substance abuse disorders, co-occurring disorders, homeless, young girls who have survived human trafficking and individuals engaged in the criminal justice system.

Licensure, Certification and Accreditation

Advent is licensed by the State of California Department of Social Services, Community Care Licensing as a Level 12 group home. Advent's Residential Recovery Program is certified by the State of California Department of Healthcare Services to operate and maintain an alcohol and/or other drug abuse recovery or treatment facility.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-298

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, **Advent Group Ministries, Inc.** (the “Borrower”), a California 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 **$430,000** 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, three percent (3%) fixed rate loan;
2. First lien position on the property located at1200 W. Edmundson Avenue, Morgan Hill, CA 95037
3. Corporate gross revenue pledge;
4. A current appraisal that is acceptable to Authority staff;
5. Loan to value ratio not to exceed 95%; and
6. 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 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: ___________________________