CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY

Applicant:	TLC Child & Family Services ("TLC")	**Amount Requested:**	$675,000
		Requested Loan Term:	20-year fixed
	Sebastopol, CA 95472	**Authority Meeting Date:**	August 4, 2016
	Sonoma County	**Resolution Number:**	HII-302
Project Sites:	Santa Rosa, CA 95405		
Facility Type:	Group Home		
Eligibility:	Government Code section 15432(d) (13)		

Prior HELP II Borrower: No (Outstanding 2011 Revenue Bonds through CHFFA - $1.8 million remaining)

Background: TLC Child & Family Services ("TLC") is a 501(c) (3) nonprofit public benefit corporation founded in 1975 to provide shelter, education, guidance, foster care, and counseling to emotionally disabled children. TLC provides a broad range of mental health services to children with neuro-developmental disorders or complex emotional problems as a result of abuse. TLC operates a treatment campus near Sebastopol, CA, which includes two 10-bed group homes, transitional housing, counseling services, educational facilities and more. In FY 2015, approximately 45 clients were served on average per day.

Use of Loan Proceeds: Loan proceeds will be used to finance the purchase of a transitional housing facility that TLC is currently renting. The proposed financing, resulting in $10,000 in savings each year over the life of the loan, will enhance TLC's ability to provide mental health services to the children it serves.

Financing Structure:

- First lien on a property located in the 95405 zip code
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately $3,414 (annual payments of approximately $40,968)
- A current appraisal that is acceptable to the Authority staff
- Corporate gross revenue pledge
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is approximately 96%)
- Verification of borrower funds to close escrow
- Copies of annual financial documents provided to Cal-Mortgage throughout the duration of outstanding 2011 CHFFA bonds
- Borrower shall submit quarterly reviews of TLC's financials to Authority staff until the loan closes

Financial Overview: TLC's income statement appears to exhibit some fluctuating operating results, with improving revenue and support over the review period, and its balance sheet is positive with a pro-forma debt service coverage ratio of 0.87x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
HELP II Loan	$ 675,000	Purchase Real Property	$ 700,000
Borrower Funds	50,000	Financing Costs	25,000
Total Estimated Sources	$ 725,000	**Total Estimated Uses**	$ 725,000

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

Staff Recommendation: Staff's position is neutral on Resolution Number HI-302 for TLC Child & Family Services in an amount not to exceed $675,000 for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. Sperry Capital, Inc., the Authority's financial advisor and Macias Gini & O'Connell LLP, the Authority's financial analyst, concur with the Authority's staff recommendation.

(JM)(MS)

I. PURPOSE OF FINANCING:

TLC Child & Family Services ("TLC") is requesting a HELP II loan to finance the purchase of a transitional housing facility (the "Property"). The property owner has expressed an interest in selling the property. By purchasing the property, it will allow TLC to continue providing a stable environment for the children its serves. Currently, TLC is making monthly lease payments in the amount of $4,175 on the Property. By purchasing the Property, TLC will save approximately $10,000 each year over the life of the loan as well as securing a permanent location while insulating themselves from the increasing rent costs. The savings and stability resulting from the purchase of the Property will allow TLC to better provide mental health services, educational services, and transitional housing to its clients.

Purchasing Real Property **..** ***$700,000***

TLC plans to use loan proceeds to purchase a 2,500 square foot facility. This facility will provide housing for three residents in the main building and a second building with three studios will house three additional residents for a total of six residents. This Property is ideally suited for TLC's transitional housing program, a program that currently serves 38 residents who are also receiving mental health, educational services and more from TLC.

The new HELP II loan will be secured by a first (1st) lien position on a property located in the 95405 zip code. TLC's financial advisor estimates the property value at $700,000, leading to a loan-to-value of approximately 96%. An appraisal acceptable to the Authority will need to be completed prior to closing to reflect a loan-to-value ratio of at least than 95%. If the loan-to-value ratio is not at or below 95% at the time of closing, TLC will supplement the funds provided by approximately $10,000 in order to satisfy the Authority's loan-to-value requirement.

Financing Costs		***25,000***
Authority Fees	$8,438	
Title and Escrow Fees	16,562	
Total Uses of Funds		**$725,000**

FINANCIAL STATEMENTS AND ANALYSIS:

TLC Child & Family Services
Statement of Activities
(Unrestricted)

	As of December 31,		
	2015	**2014**	**2013**
Revenue and Support			
Fees and grants from government agencies	$ 7,858,791	$ 7,971,421	$ 7,516,122
Contributions [(a)]	24,271	(16,725)	30,746
Other income	7,702	7,923	8,198
Net assets release from purpose restrictions	32,011	57,412	-
Total Revenue and Support	7,922,775	8,020,031	7,555,066
Expenses			
Salaries	4,269,932	4,138,349	3,948,220
Employee benefits	675,987	725,435	738,831
Payroll taxes	311,903	300,536	290,659
Foster parent fees	636,524	680,991	607,790
Rent	445,320	432,134	334,890
Food	229,658	235,454	193,396
Professional fees and contract services	171,635	199,729	169,799
Depreciation	138,808	127,617	113,166
Other program costs	128,232	127,463	110,168
Vehicle operating costs	123,315	126,390	107,423
Utilities	90,873	86,111	78,652
Telephone	86,969	82,759	61,215
Insurance	85,625	78,884	84,236
Interest	83,124	83,342	93,051
Miscellaneous	83,120	63,302	85,130
Maintenance and repairs	64,659	68,241	82,717
Conference and travel	55,781	51,765	50,305
Expendable equipment	48,007	46,134	63,175
Clothing	41,193	49,038	39,748
Operating supplies	40,782	42,544	46,626
School supplies	21,136	25,280	29,117
Dues and subscriptions	14,468	13,507	17,014
Personal and incidental	12,910	15,932	9,947
Postage and freight	10,370	11,474	11,438
Adoption support	9,140	14,576	37,657
Printing and publications	1,349	2,208	1,515
Bad debt expense	-	14,416	-
Total Expenses	7,880,820	7,843,611	7,405,885
Change in Net Assets Before (Loss) Gain on Sale of Property and Equipment	41,955	176,420	149,181
Gain (loss) on Sale of Property and Equipment	-	949	(17,006)
Change in net assets	41,955	177,369	132,175
Net assets at beginning of year	2,800,791	2,623,422	2,491,247
Net assets at end of year	**$ 2,842,746**	**$ 2,800,791**	**$ 2,623,422**

[(a)] Contributions were $(16,725) in FY 2014 as a result of TLC's auditor re-itemizing money initially identified by TLC as Contributions under Fees and grants from government agencies.

Revenue and Other Support for FYE December 31, 2015

Payor Source	Percent
Aid to Families with Dependent Children - Foster Care	67
California Special Education Funds	13
Short Doyle/Medi-Cal	8
Other Contracted County	7
California Adoption	5
Total	100

TLC Child & Family Services
Statement of Financial Position
(Unrestricted)

	As of December 31,		
	2015	**2014**	**2013**
Assets			
Current Assets			
Cash	$ 770,577	$ 991,675	$ 944,885
Accounts Receivable	1,065,548	815,800	915,629
Investment	5,374	5,328	-
Deposits	51,040	52,743	50,398
Prepaid insurance	82,035	87,675	89,060
Total Current Assets	1,974,574	1,953,221	1,999,972
Bond costs and reserves	454,503	465,474	478,111
Property and equipment	3,154,348	3,243,770	3,092,044
Total Assets	5,583,425	5,662,465	5,570,127
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	171,238	145,271	127,225
Accrued liabilities	616,113	519,970	514,245
Accrued unemployment liability	30,000	30,000	30,000
Total Current Liabilities	817,351	695,241	671,470
Certificates of participation	1,820,000	2,010,000	2,195,000
Line of credit	-	-	-
Notes Payable	103,328	146,652	70,235
Total Liabilities	2,740,679	2,851,893	2,936,705
Net Assets			
Unrestricted	2,825,246	2,783,291	2,623,422
Unrestricted - board designated	17,500	17,500	-
Temporarily restricted	-	9,781	-
Total Net Assets	2,842,746	2,810,572	2,623,422
Total Liabilities and Net Assets	$ 5,583,425	$ 5,662,465	$ 5,560,127

	Proforma FYE June 30, 2015	**2015**	**2014**	**2013**
Debt Service Coverage - Net	0.87	0.83	1.29	1.08
Debt to Unrestricted Net Assets (x)	0.91	0.68	0.77	0.86
Margin (%)		0.53	2.20	1.97
Current Ratio (x)		2.42	2.81	2.98

Financial Discussion – Statement of Activities (Income Statement)

TLC's income statement appears to exhibit some fluctuating operating results, with improving revenue and support over the review period.

TLC appears to display fluctuating operating results with improving revenues from FY 2013 to FY 2015. Overall, net assets at end of year grew from $2.6 million in FY 2013 to $2.8 million in FY 2015, or 8.3%. Total revenues and support increased from $7.5 million in FY 2013 to $8 million in FY 2014, but dipped slightly to $7.9 million in FY 2015, for an overall increase of 4.8%. However, total expenses also increased from $7.4 million in FY 2013 to $7.8 million in FY 2015, an overall increase of 6.4%. According to TLC's management, fees and grants from government agencies decreased in FY 2015 due to a decline in group home utilization and a lack of growth in reimbursement from counties and school districts who are the primary sources of funding for TLC's group home program.

TLC's salaries increased from roughly $3.9 million in FY 2013 to approximately $4.2 million in FY 2015. This increase is attributable to a number of TLC's key employees retiring in FY 2014 and 2015 which affected the efficiency of TLC's service provision. TLC hired new employees to replace the retiring employees but continued to pay the outgoing employees as they trained the new staff. This issue negatively affected operating performance in FY 2015 but TLC's management does not anticipate further turnover occurring in the foreseeable future.

Additionally, TLC has improved occupancy in their various programs and further developed their transitional housing program in order to enhance its service provision and financial performance. TLC has hired a new head psychologist who promotes treatments that are both helpful and therapeutic to the client but also fiscally responsible to the organization.

According to TLC's management, TLC implemented an overall emphasis on organizational productivity moving forward. This emphasis on productivity appears to be reflected in FY 2016's YTD results. For the six months ended June 30, 2016, TLC's operating income displays a gain of $161,299, placing FY 2016 on track to out-perform any of TLC's prior three fiscal years in its financial performance. TLC's management also reported that during the same six month period in FY 2015, TLC's operating income displayed a gain of $66,562, indicating that TLC's performance has improved.

Particular Facts to Note:

- Rent increased 32.9%, from approximately $334,000 in FY 2013 to approximately $445,000 in FY 2015. According to TLC management, the increases in rent expense have occurred primarily in TLC's transitional housing program, a program requiring the rental of residential homes and apartments that are sometimes unable to be leased through multiple-year agreements. The resulting short term agreements leave TLC more vulnerable to rent increases, a trend TLC is looking to curtail through the proposed financing.

- In FY 2014, TLC had a bad debt expense of approximately $14,416. According to TLC management, this expense relates to an adoption account that was written off by TLC due to nonpayment.

Financial Discussion – Statement of Financial Position (Balance Sheet)

TLC's balance sheet appears positive with a pro-forma debt service coverage ratio of 0.87x.

TLC's total assets increased from $5.56 million in FY 2013 to $5.58 million in FY 2015, an increase of 0.4%, while total liabilities dropped from $2.9 million in FY 2013 to $2.7 million in FY 2015, a reduction of 6.7%. TLC's debt service coverage reduced steadily during the review period, from 1.08x in FY 2013 to 0.83x in FY 2015. With the proposed funding from the HELP II Loan, TLC's pro-forma debt service coverage will slightly improve from 0.83x to 0.87x.

According to TLC management, a significant amount of principal payments were being paid on its outstanding debt obligations in fiscal years prior to FY 2015. TLC's 2011 revenue bonds mature in nine years and its other debt obligations mature in approximately three years. This shorter than normal retirement of outstanding debt increases the annual principal repayment and causes TLC's debt service coverage ratio to be lower than normal. The ability to purchase and finance the project site property over a 20-year period will assist TLC in improving its debt service coverage ratio into the future. As TLC pays off its notes payable over the next three years and its 2011 revenue bonds over the next nine years, its debt service will drop significantly and allow for a stronger figure in the future.

Particular Facts to Note:

- Cash and cash equivalents fluctuated from approximately $944,000 in FY 2013 to $991,000 in FY 2014, and $770,000 in FY 2015, an overall reduction of 18.4%. TLC's cash and cash equivalents experienced a net decline in FY 2014 and FY 2015 due to three primary reasons; TLC made $467,528 in principal payments on its debt obligations, TLC made several improvements to its facilities that totaled $272,559, and TLC's accounts receivable increased by $149,919 due to a slowing in payments received from its government payors. TLC does not anticipate the need to make as significant of improvements to its facilities in the coming three years and its principal repayments on outstanding debt will decline after 2019 and 2020 with the payoff of its notes payable and the principal reduction in the repayment of its 2011 Revenue Bonds, as noted above. TLC does not anticipate a worsening of its collections on accounts receivable from governmental agencies any more than it has already experienced.

- Accounts receivable increased 17.7% from approximately $905,000 in FY 2013 to $1.06 million in FY 2015. According to TLC's management, TLC does not anticipate that its accounts receivable will increase much above its current level as repayments continue to stabilize from government payors.

EXHIBIT 1

UTILIZATION STATISTICS

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

	2015	**2014**	**2013**
Totals	16,498 / (N/A)	15,731 / (N/A)	12,884 / (N/A)

EXHIBIT 2

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding as of December 31, 2015	Estimated Amount Outstanding after Proposed Financing
-EXISTING LONG-TERM DEBT:			
CHFFA Refunding Revenue Bonds, 2011	$ 2,475,000	$ 1,820,000	$ 1,820,000
Miscellaneous Notes Payable		103,328	103,328
PROPOSED NEW DEBT			
CHFFA HELP II Loan (2016)		-	**675,000**
TOTAL DEBT		**$ 1,923,328**	**$ 2,598,328**

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

TLC Child & Family Services ("TLC"), formerly known as True to Life Children's Services is a 501(c)(3) California non-profit public benefit corporation established in 1975 dedicated to providing shelter, education, guidance, foster care, and counseling to emotionally disabled children. TLC provides a broad range of mental health services to children with neuro-developmental disorders or complex emotional problems as the result of physical, sexual, or emotional abuse as well as support services for the children's families. TLC also treats children who have severe learning disabilities, developmental disabilities, or problems related to substance abuse. The range of treatment provided includes residential treatment, specialty mental health services, foster care, and specialized educational services. TLC primarily serves populations within Sonoma and Mendocino, with its facilities located near the city of Sebastopol. The current estimated population of permanent residents living within TLC's primary service area is approximately 584,000.

Founded in South Lake Tahoe in order to provide a group home setting for children coming out of institutional care. TLC relocated to Sebastopol in 1980 and incorporated in 1983. Since, TLC has received the support of Sonoma County agencies, local schools, and TLC's neighbors. Since moving, TLC has expanded their scope of service to include several programs to support their clients through. These programs include group homes with relief counselors and "live-in" parents, foster family placement, a certified nonpublic school designated to provide special education services to emotionally disturbed children, day treatment mental health services and more.

From 2000 through 2003, TLC purchased approximately 7.2 acres of land near Sebastopol and constructed five separate buildings that comprise its main treatment campus—two 10-bed group homes, transitional housing, counseling services, administrative offices, educational facilities, and a multi-use building.

Licensure, Certification and Accreditation

TLC Child & Family Services is licensed by the California Department of Social Services to operate and maintain group homes and a transitional housing placement program.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-302

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, **TLC Child and Family Services** (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 **$675,000** for a term not to exceed **20 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. 20-year, two percent (2%) fixed rate loan;
2. First lien position on a property located in the 95405 zip code;
3. Corporate gross revenue pledge;
4. A current appraisal that is acceptable to Authority staff;
5. Loan to value ratio not to exceed 95%;
6. Verification of Borrower's funds to close escrow;
7. Copies of annual financial documents provided to Cal-Mortgage throughout the duration of outstanding 2011 CHFFA bonds; and
8. Borrower shall submit quarterly reviews of TLC's financials to Authority staff until the loan closes.

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 12 months from the date of approval.

Date of Approval: ___________________________