

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Home Ownership for Personal Empowerment, Inc. (“HOPE”) 21231 Hawthorne Boulevard Torrance, CA 90503 Los Angeles County</p> <p>Project Sites: <i>See Exhibit 1</i></p> <p>Facility Type: Residential Facility for Persons with Developmental Disabilities</p> <p>Eligibility: A residential facility for persons with developmental disabilities pursuant to Government Code Section 15432(d)(19)</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$1,500,000</p> <p>Loan Term: 20-year fixed</p> <p>Authority Meeting Date: September 22, 2016</p> <p>Resolution Number: HII-304</p>
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Background: HOPE was founded in 1994 as a 501(c)(3) non-profit organization by the Harbor Regional Center in Torrance and community volunteers. HOPE’s mission is to create stable, affordable housing for people with developmental disabilities, which includes autism, cerebral palsy, epilepsy, and intellectual disabilities. HOPE’s goal is to address the shortage of affordable rental housing in Los Angeles County that is not dependent on changes in the surrounding housing market conditions. HOPE owns over 45 properties that provide housing to over 150 individuals.

Uses of Loan Proceeds: Loan proceeds will be used to finance the purchase of three residential homes from Social Vocational Services (“SVS”) to house 12 individuals with developmental disabilities. SVS is currently licensed through the Department of Social Services and provides developmental disability services at each of the properties. SVS will lease each property back from HOPE to continue providing in-home care and support services. The three homes total 6,308 square feet and provide each resident their own bedroom.

Financing Structure:

- 20-year, two percent (2%) fixed rate for real property purchase.
- 240 equal monthly payments of approximately \$7,588 (annual payments of approximately \$91,059).
- Corporate gross revenue pledge.
- First (1st) lien positions on real property located at 24512 Woodward Ave., Lomita, CA 90717; 235 L St., Wilmington, CA 90744; and 8330 Hendrie St., Long Beach, CA 90809.
- Executed purchase contracts.
- Verification of Borrower’s funds to close escrow and current appraisals for each real property.
- Proof of licensing for service provider at each of the three real properties.
- Combined loan to value ratio not to exceed 95% (estimated combined loan to value ratio of 89%).

Financial Overview: HOPE’s income statement appears to exhibit decreasing total revenue, but still maintains a healthy proforma debt service coverage ratio of 1.26x. HOPE appears to exhibit a solid balance sheet with increasing fixed assets and total unrestricted net assets.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 1,500,000	Purchase real estate	\$ 1,500,000
Borrower Funds	75,000	Renovations	53,250
		Financing Costs	21,750
Total Estimated Sources	\$ 1,575,000	Total Estimated Uses	\$ 1,575,000

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: Guaranty Escrow, Inc. and Social Vocational Services

Staff Recommendation: Staff recommends approval of Resolution Number HII-304 for Home Ownership for Personal Empowerment, Inc. in an amount not to exceed \$1,500,000 for a term not to exceed 20 years, contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell LLP, the Authority’s financial analyst, concurs with the Authority’s staff recommendation.

I. EXPLANATION OF ELIGIBILITY

HOPE provides permanent housing for individuals with developmental disabilities while a separate entity provides the care and support services for those individuals. The separation of property ownership from service delivery allows the residents to maintain stable housing in the event the in-home service provider needs to change. This model of service delivery is supported by the California Department of Developmental Services and is referred to as the “Buy it Once” model. Although HOPE is not directly licensed, the service provider obtains licensing to operate the health facility at each of the properties owned by HOPE. As the owner of the building that will be licensed and used to provide health services to individuals with developmental disabilities, HOPE is eligible for the HELP II Loan Program as a residential facility for persons with developmental disabilities pursuant to Government Code Section 15432(d)(19).

II. PURPOSE OF FINANCING:

The need for affordable and permanent housing continues to be an urgent need for Southern Californians with a developmental disability. In FY 2014, HOPE launched a five year capital campaign, called 80 by 18, to acquire at least 15 properties to be able to offer affordable housing to an additional 80 individuals with developmental disabilities. HOPE seeks to purchase three homes to expand services and provide potential and former developmental center residents a less restrictive environment closer to family members in a state-licensed residential home.

Purchase Real Estate..... \$1,500,000

HOPE plans to purchase three state-licensed residential homes that will provide continuous in-home care and support services for 12 individuals with developmental disabilities. SVS currently owns the homes and will lease the properties back from HOPE to continue providing services for the residents while HOPE will own and maintain the properties. SVS is licensed by the California Department of Social Services – Community Care Licensing Division to provide services at each property. The three properties total 6,308 square feet and will range from three to four bedrooms with each resident having their own room.

The HELP II loan will be secured by first (1st) lien positions on the properties located at 24512 Woodward Ave., Lomita, CA 90717; 235 L St., Wilmington, CA 90744; and 8330 Hendrie St., Long Beach, CA 90809. The combined value of the properties is estimated at \$1,678,000 leading to a combined loan-to-value ratio of approximately 89%. An appraisal for each property acceptable to the Authority will be completed prior to closing.

Renovations..... 50,250

HOPE will contribute its own funds to complete minor renovations on each of the three properties, which will include fixing and repairing bathrooms, kitchens, and bedrooms, replacing furnaces, heaters, and vents, as well as interior and exterior painting.

Financing Costs..... 24,750

Authority Fees \$18,750

Title and Escrow Fees 6,000

Total Uses of Funds \$1,575,000

III. FINANCIAL STATEMENTS AND ANALYSIS:

Home Ownership for Personal Empowerment, Inc.
Statement of Activities
(Unrestricted)

	As of June 30,		
	2015	2014	2013
Public support & revenue			
Contributions	\$ 476,138	\$ 41,850	\$ 51,641
Rent	2,675,634	2,159,353	1,680,479
Special events - net	156,323	98,255	111,427
Donated rent and services	55,962	64,126	144,475
Forgiveness of debt	(2,733)	57,727	38,296
Interest income	14,082	3,023	794
Other income	33,346	385,758	291,499
Gain on sale of property	1,946	74,781	-
Net assets released from restrictions	163,605	2,663,897	4,041,635
Total public support & revenue	<u>3,574,303</u>	<u>5,548,770</u>	<u>6,360,246</u>
Expenses			
Administrative	785,190	617,214	513,077
Interest	1,039,922	850,872	711,646
Operating and maintenance	594,272	388,025	293,183
Taxes and insurance	290,782	270,590	214,739
Utilities	17,696	23,641	38,827
Use of donated services	55,962	64,126	144,475
Depreciation	689,905	617,044	454,040
Total expenses	<u>3,473,729</u>	<u>2,831,512</u>	<u>2,369,987</u>
Change in unrestricted net assets	100,574	2,717,258	3,990,259
Unrestricted net assets, beginning of year	<u>17,320,673</u>	<u>14,603,415</u>	<u>10,613,156</u>
Unrestricted net assets, end of year	<u>\$ 17,421,247</u>	<u>\$17,320,673</u>	<u>\$ 14,603,415</u>

Home Ownership for Personal Empowerment, Inc.
Statement of Financial Position
(Unrestricted)

	As of June 30,		
	2015	2014	2013
Assets			
Current assets			
Cash and cash equivalents	\$ 1,096,909	\$ 1,623,465	\$ 2,055,113
Accounts receivable	2,450	-	506,465
Tenant receivables	2,381	48,003	139,510
Investments	699,679	968	891
Pledges receivable	2,500	10,000	1,550
Prepaid expenses and other assets	1,775	397,016	173,671
Total current assets	1,805,694	2,079,452	2,877,200
Property and equipment, net of accumulated depreciation and amortization	33,771,642	32,762,120	29,235,831
Other assets			
Beneficial interest in quasi-endowment fund	810,515	504,144	-
Tenant security deposits	144,407	136,870	108,344
Reserve for replacements	6,830	62,495	60,478
Operating reserve	20,699	19,783	18,827
Total other assets	982,451	723,292	187,649
Total assets	<u>\$ 36,559,787</u>	<u>\$ 35,564,864</u>	<u>\$ 32,300,680</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable and accrued expenses	\$ 137,366	\$ 179,812	\$ 182,965
Tenant security deposits	144,424	138,162	130,544
Notes payable - short term	361,882	323,721	279,033
Deferred revenue - rents	356	11,363	4,700
Prepaid revenue	-	209,003	1,081,907
Total current liabilities	644,028	862,061	1,679,149
Long -term liabilities			
Notes payable	18,484,512	17,343,525	15,923,952
Total liabilities	19,128,540	18,205,586	17,603,101
Net assets			
Unrestricted	17,421,247	17,320,673	14,603,415
Temporarily restricted	10,000	38,605	94,164
Total net assets	17,431,247	17,359,278	14,697,579
Total liabilities and net assets	<u>\$ 36,559,787</u>	<u>\$ 35,564,864</u>	<u>\$ 32,300,680</u>

	Proforma^(a)			
	FYE June 30, 2015	2015	2014	2013
Debt Service Coverage - Net (x)	1.26	1.34	3.70	5.71
Debt to Unrestricted Net Assets (x)	1.17	1.08	1.02	1.11
Margin (%)		2.81	48.97	62.74
Current Ratio (x)		2.80	2.41	1.71

^(a) Recalculates FY 2015 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

HOPE's income statement appears to exhibit decreasing total revenue, but still maintains a solid proforma debt service coverage ratio of 1.26x.

HOPE appears to exhibit decreasing revenues from approximately \$6.3 million in FY 2013 to approximately \$3.6 million in FY 2015. In FY 2015, HOPE ended its participation in the Community Placement Plan ("CPP"), a program with the State of California Department of Developmental Services that assists individuals with developmental disabilities live in the least restrictive setting appropriate to their needs. The CPP provides funding to regional centers for the development of a variety of resources, including residential development. According to HOPE's management, the CPP compliance and funding requirements were not aligned with HOPE's strategic plan. Therefore, HOPE made the decision to no longer use the CPP and sought alternative funding methods. According to HOPE's management, to offset the forgone CPP funding HOPE has increased its development efforts, which resulted in over \$250,000 in new funding sources. The development efforts are reflected as part of the increase in contributions from approximately \$42,000 in FY 2014 to approximately \$476,000 in FY 2015. HOPE also uses a portion of the income generated from rent payments for future capital purchases and renovations. In addition, HOPE anticipates increasing its overall utilization and rental revenues through the acquisition of properties. As part of its "80 by 18" capital campaign, HOPE plans to acquire at least 15 properties to be able to offer affordable housing to an additional 80 individuals with developmental disabilities.

Particular Facts to Note:

- HOPE experienced strong growth in rent revenue from approximately \$1.7 million in FY 2013 to approximately \$2.7 million in FY 2015, an increase of approximately 59%. According to HOPE's management, HOPE acquired several new properties from FY 2013 to FY 2015 and realized increased income from the additional new tenants.
- Other income decreased significantly from approximately \$386,000 in FY 2014 to approximately \$33,000 in FY 2015. According to HOPE management, the decrease in other income was due to developer fees HOPE received related to the CPP funding, which was discontinued in 2015.
- Operating and maintenance expenses more than doubled from approximately \$293,000 in FY 2013 to approximately \$594,000 in FY 2015. According to HOPE's management, as rental income increases, related operating and maintenance expenses also increase. Operating and maintenance expenses also tend to be higher during periods when HOPE is experiencing increased property acquisitions and renovations.

Financial Discussion – Statement of Financial Position (Balance Sheet)

HOPE appears to exhibit a solid balance sheet with increasing fixed assets and total unrestricted net assets.

As a nonprofit housing provider for individuals with developmental disabilities, HOPE purchases homes through debt financing, which is reflected in HOPE's increasing notes payable from approximately \$17.6 million in FY 2013 to approximately \$19.1 million in FY 2015. At the same time, HOPE's fixed assets of property and equipment also increased from approximately \$29.2 million in FY 2013 to approximately \$ 33.8 million in FY 2015. With several new financings in FY 2015, HOPE's debt-to-unrestricted net assets ratio increased from 1.02x in FY 2014 to 1.08x in FY 2015. The additional debt from the new HELP II loan will increase HOPE's FY 2015 proforma debt-to-unrestricted net assets ratio to 1.17x. However, many of HOPE's loans through state and local governments bear no interest and/or principal payments and are forgivable so long as HOPE continues to operate as a nonprofit housing provider for individuals with developmental disabilities.

Although decreasing, HOPE has maintained a solid debt service coverage ratio of 5.71x in FY 2013, 3.70x in FY 2014, and 1.34x in FY 2015. In FY's 2014 and 2013, HOPE had large amounts of net assets released from restriction, approximately \$2.6 million and \$4 million, respectively, increasing the amount of income available for debt service. In FY 2015, HOPE's net assets released from restriction decreased to approximately \$164,000, leading to a 1.34x debt service coverage ratio. According to HOPE's management, the decrease in net assets released from restriction was due to HOPE discontinuing its participation in the CPP program. In FY's 2013 and 2014, CPP funds were released from restriction and used to renovate existing properties. With the new HELP II loan, HOPE's FY 2015 proforma debt service coverage ratio decreases to a still solid 1.26x.

Particular Facts to Note:

- In FY 2014, HOPE's board of directors established a quasi-endowment fund in the name of HOPE. The board of directors intends for the fund to be used for the acquisition and reserve for replacements of affordable properties for the sole benefit of HOPE. HOPE or its donors may contribute to the fund at any time, and the fund may be drawn down in part or completely with approval by the board. The endowment fund increased from approximately \$504,000 in FY 2014 to approximately \$811,000 in FY 2015.
- Prepaid revenue decreased from approximately \$1.1 million in FY 2013 to zero in FY 2015. According to HOPE's management, the decrease to zero in FY 2015 represents all CPP contracts being closed and that CPP funding is no longer being used for acquisitions and renovations. In FY 2015, HOPE increased other funding sources through an increase in development efforts and contributions. HOPE also uses a portion of the income generated from rent payments for future capital purchases and renovations.
- Cash and cash equivalents decreased from approximately \$2.1 million in FY 2013 to approximately \$1.1 million in FY 2015. According to HOPE's management, in FY 2014 HOPE revised its investment policy to decrease the amount of idle cash and cash equivalents, and in FY 2015 invested \$693,000, which was held in cash in FY 2014, with Harris Financial.

EXHIBIT 1
PROJECT SITES

- 24512 Woodward Avenue, Lomita, CA 90717
- 235 L Street, Wilmington, CA 90744
- 8330 Hendrie Street, Long Beach, CA 90809

EXHIBIT 2

UTILIZATION STATISTICS

Clients Served / (Client Visits)

**Home Ownership for Personal Empowerment
Fiscal Year Ended June 30,**

	2015	2014	2013
Totals	250 / (91,250)	200 / (73,000)	200 / (73,000)

EXHIBIT 3
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2015^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
First Republic Bank Various Loans (2012 - 2015)	\$ 10,163,582	\$ 9,851,121	\$ 9,851,121
Guild Mortgage Company Various Loans (2010 - 2011)	4,220,750	3,955,260	3,955,260
Bank of Guam Various Loans (2011 - 2012)	1,860,250	1,782,090	1,782,090
City National Bank Various Loans (1997 - 2011)	1,156,000	780,079	780,079
City of Bellflower (2004) ^(b)	500,000	299,264	299,264
City of Bellflower (2005)	50,000	66,964	66,964
City of Norwalk Various Loans (2006 - 2015) ^(c)	1,578,439	1,463,773	1,463,773
City of South Gate Various Loans (2011) ^(d)	483,224	483,224	483,224
Housing Authority of the County of Los Angeles Various Loans (1999 - 2014) ^(e)	258,208	152,756	152,756
State of California Department of Housing and Community Development (1996) ^(f)	237,275	11,863	11,863
- PROPOSED NEW DEBT:			
CHFFA HELP II Loan (2016)			1,500,000
- TOTAL DEBT		\$ 18,846,394	\$ 20,346,394 ^(g)

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

^(b) Principal and interest are forgiven every 12 months that HOPE complies with the requirements of the program agreement.

^(c) No principal or interest payments are required and loan is forgiven at maturity if HOPE satisfies the requirements of the agreement.

^(d) Loan bears no interest so long as there is no breach of the loan document and principal is forgiven at the end of the 25 year period.

^(e) Loan bears no interest so long as there is no breach of the loan document.

^(f) Principal is forgiven at a rate of 5% per year each year HOPE complies with the requirements of the program agreement.

^(g) Estimated amount outstanding after proposed financing, less forgivable loans is \$18,088,270

EXHIBIT 4

BACKGROUND AND LICENSURE

Background

HOPE was founded in 1994 as a 501(c)(3) non-profit organizations by the Harbor Regional Center in Torrance and community volunteers. HOPE's mission is to create stable, affordable housing for people with developmental disabilities, which includes autism, cerebral palsy, epilepsy, and intellectual disabilities. HOPE's goal is to address the shortage of affordable rental housing in Los Angeles County that is not dependent on changes in the surrounding housing market conditions.

HOPE partners with a number of Regional Centers to provide three housing options: the Affordable Rental Housing (ARH) program; permanent, State-Licensed Residential Homes; and college housing for the College to Career (C2C) program. The ARH program is HOPE's original program and provides affordable housing throughout the Harbor Regional Center service area. HOPE owns over 20 affordable rental properties with the capacity to house over 60 residents. The properties include single family homes, condominiums, and multi-family duplexes or triplex properties, and HOPE's tenants pay rent that is no more than 30% of their income. HOPE partners with Harbor Regional Center, Frank D. Lanterman Regional Center, Westside Regional Center, and North Los Angeles County Regional Center to provide housing for former developmental center residents in a less restrictive environment in state-licensed residential homes. HOPE purchases the state-licensed residential homes and then leases them to licensed service providers that provide on-site support services to individuals with developmental disabilities. HOPE has developed over 45 properties that provide housing to over 150 individuals. The majority of individuals previously living at a State Developmental Center. In partnership with the Harbor Regional Center, Long Beach City College, and California Mentor, the C2C program offers on-campus and residential support for students who are working to complete a degree or certificate program at the college.

Licensure, Certification and Accreditation

As a housing provider, HOPE's properties are not licensed directly. Social Vocational Services will be the service provider at each of the three homes and is licensed to operate adult residential facilities by the California Department of Social Services.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-304

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, **Home Ownership for Personal Empowerment, 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 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 **\$1,500,000** for a term not to exceed **20 years** for the purpose of purchasing real property as 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 for real property purchase;
2. First (1st) lien positions on real property located at 24512 Woodward Ave., Lomita, CA 90717; 235 L St., Wilmington, CA 90744; and 8330 Hendrie St., Long Beach, CA 90809;
3. Current appraisals for each real property acceptable to Authority staff;
4. Executed purchase contracts for each real property;
5. Combined loan to value ratio not to exceed 95%;
6. Corporate gross revenue pledge;
7. Verification of Borrower’s funds to close escrow; and
8. Proof of licensing for service provider at each of the three real properties.

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 12 months from the date of approval.

Date of Approval: _____