

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

**The HELP II Program
EXECUTIVE SUMMARY**

| | |
|---|--|
| Applicant: Neighborhood House of North Richmond ("Neighborhood") 305 Chesley Avenue Richmond, CA 94806 Contra Costa County | Amount Requested: \$400,000 Requested Loan Term: 15 years Date Requested: October 31, 2002 Resolution Number: HII-127 |
|---|--|

Project Site: 770-23rd Street and 820-23rd Street, Richmond, California.

Facility Type: Adult alcoholism/drug residential and outpatient facility.

Policy Issue: Two other loans will encumber the property as collateral and the Authority cannot be in 1st lien position as normally required under the HELP II Loan Program guidelines. However, staff recommends approval for the reasons outlined on the following page.

Use of Loan Proceeds: Loan proceeds will be used to purchase a facility which will house programs currently operating out of two leased locations and will triple total bed space. This loan will be secured by a 2nd lien position behind a \$1.4 million loan.

Type of Issue: HELP II Loan.

Prior HELP II Borrower: No

Financial Overview: Neighborhood is a growing organization that has been modestly, although not consistently, profitable. With this loan and the loans from HealthCAP and LIHF needed to complete this project, Neighborhood will be leveraged. However, proforma debt service coverage indicates they will be able to manage the debt.

| Sources of Revenue: | <u>Amount</u> | <u>Percent</u> |
|---------------------------------------|--------------------|----------------|
| (FYE 6-30-01) Government contracts | \$770,341 | 55% |
| Client fees | 280,644 | 20% |
| Grants and donations | 247,569 | 17% |
| Net assets released from restrictions | 91,493 | 6% |
| Other | <u>23,427</u> | <u>2%</u> |
| Total Support and Revenue | <u>\$1,413,474</u> | <u>100%</u> |

Estimated Sources of Funds:

Estimated Uses of Funds:

| | | | |
|------------------------|--------------------|-----------------|--------------------|
| HELP II Loan | \$400,000 | Purchase | \$2,000,000 |
| Other loans | 1,637,344 | Remodeling | 241,784 |
| Dept of Commerce grant | 500,000 | Reserves | 321,200 |
| Equity Contribution | <u>116,640</u> | Financing Costs | <u>91,000</u> |
| Total Sources | <u>\$2,653,984</u> | Total Uses | <u>\$2,653,984</u> |

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Neighborhood House of North Richmond in an amount not to exceed \$400,000 for a term of 15 years subject to a 2nd deed of trust acceptable to the Authority, securing the necessary financing from the Low Income Housing Fund and NCB (or other lenders acceptable to the Authority), receiving an appraised value providing a total loan to value of no greater than 95%, subject to the fiscal 2002 final audit being materially consistent with the financial information presented in this report, subject to environmental remediation satisfactory to the Authority, and subject to the standard HELP II loan provisions.

STAFF SUMMARY AND RECOMMENDATION

NEIGHBORHOOD HOUSE OF NORTH RICHMOND (“Neighborhood”)

October 31, 2002

Resolution Number: HII-127

POLICY ISSUE: HELP II Loan Program guidelines provide that the Authority take a 1st lien position on financed property. Neighborhood will be receiving a loan totaling \$1,453,700 from the Low Income Housing Fund (“LIHF”), which includes a participating loan from HealthCap/NCB. As such, the Authority can only have a second lien position on the property being financed, in addition to a subordinate lien on corporate gross revenues. Staff recommends an exception to the HELP II policy due to the combined loan-to-value of 83% (based on the estimated as-improved property value).

I. PURPOSE OF FINANCING: Neighborhood is seeking to purchase a former hospital building for residential and outpatient alcohol and drug treatment programs currently housed in leased facilities. By purchasing this building, Neighborhood will save \$83,000 in annual lease payments, increase its asset base, and allow for future expansion. This is an ambitious project that will require several conditions to be met before funding.

A description of the project is as follows:

Purchase facility\$2,000,000

Neighborhood is seeking to purchase a 36,600 square foot, three-story building that also provides an additional 13,500 square feet in parking space and 6,640 square foot yard/open space. This site was formerly an acute care psychiatric hospital but that is currently owned by an individual. The building has been vacant for four years. Neighborhood has also applied for a loan through the Low Income Housing Fund (“LIHF”) as well as through HealthCAP/NCB, each of which will commit approximately \$730,000. Under an agreement with NCB, LIHF will originate the loan, record a deed of trust, and share first position lien on the property. Each will have an equal say regarding the terms of the property disposition and each will share equally in the proceeds. This will be a ten-year loan, amortized over fifteen years, with an anticipated blended interest rate of 7.425%.

LIHF issued a commitment letter on October 10, 2002 with the following conditions:

- Prefunded operating reserve of \$78,000 [= 6 months of debt service payments]
- Prefunded account of \$200,000 for repair of items needed to comply with city and state licensing requirements (including sprinkler systems, elevators, and plumbing).
- Prefunded ‘property replacement’ reserves of \$1.00 per square foot (approximately \$43,200).

- Removal of an underground storage tank as recommended by the Phase I environmental report, soil sampling, and acceptable Phase II report if necessary.
- Commitment of a \$500,000 grant from the U.S. Department of Commerce.

NCB is expected to make its underwriting decision by early November. In addition to the Department of Commerce grant, Neighborhood will need to raise approximately \$175,000. Neighborhood has applied to the City of Richmond Redevelopment Agency for a \$175,000 grant for renovations and expects a decision in early November. Other possible funding sources include a loan using other property as collateral, or using an existing line of credit.

A Phase I environmental report recommended removing an underground storage tank (which apparently held diesel fuel for an emergency generator formerly located at the facility) and testing of soil samples. A purchase contract is being drafted which will require the owner to pay for any environmental cleanup.

Neighborhood will be relocating its residential treatment program and an outpatient program, both currently in leased facilities. The residential program, currently with 40 beds, will expand to 120 beds, and occupy the 2nd floor. A kitchen and outpatient services programs will occupy approximately half of the 1st floor. Neighborhood is in discussions with other local organizations, including a community clinic and a community college, regarding leasing the remainder of the building. Neighborhood anticipates that the purchase will be viable, factoring in the savings from the current lease payments and an anticipated leasing-out of at least half of the remaining space (in addition to payments for an existing cellular tower on its roof). Neighborhood believes that this will allow them to build equity and to provide them with additional space for future expansion of services.

Neighborhood believes this facility is ideal for its purposes and is anxious to renew its purchase contract (originally dated July 30, 2002) as there is reportedly another interested buyer. The owner has indicated that he will only sign a purchase contract once Neighborhood has received sufficient loan commitments.

Contra Costa County’s Health Services department has indicated that there is a significant need for additional treatment beds as there is currently a waiting list of 135 men, with a waiting time of 49 days, and 120 women waiting 84 days. Neighborhood also anticipates that it will be able to add new services desired by the County, such as a 12-bed program to provide drug & alcohol treatment to individuals who are homeless or mentally ill.

Remodeling**\$241,784**

Neighborhood will convert the property into its intended residential and outpatient uses. Other anticipated renovations to this building (which is approximately 80 years old) include plumbing, electrical, and other items needed to comply with local codes.

Reserves\$321,200

As a condition of funding, LIHF has required reserves totaling \$321,200 (detailed above).

Financing Costs 91,000

1. Authority Closing Fee..... \$6,000

2. Loan origination fee (LIHF & NCB)..... 49,000

3. Insurance 20,000

4. Appraisal..... 4,500

5. Title/Escrow/Other..... 11,500

Total.....\$2,653,984

Financing structure: The Neighborhood financing will be structured as follows:

- 15-year loan term.
- 180 equal monthly payments of roughly \$2,765 (yearly payments of about \$33,180).
- Total interest payments of approximately \$97,220.
- 2rd position lien on property located at 770-23rd Street (parking lot) and 820-23rd Street, Richmond, California.
- Maximum combined loan to value of 95%.
- Corporate gross revenue pledge.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Neighborhood House of North Richmond Statement of Activities Unrestricted

| | For the year ended <u>6/30/02</u> (Unaudited) | <u>For the year ended June 30</u> | | |
|---|--|-----------------------------------|-------------------|-------------------|
| | | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Unrestricted Revenue: | | | | |
| Federal contracts | 392,535 | 434,700 | 388,361 | 336,038 |
| Other contracts | 629,941 | 335,641 | 221,366 | 224,025 |
| Client fees | 360,711 | 280,644 | 194,072 | 192,595 |
| Grants and donations | 86,110 | 247,569 | 230,721 | 154,504 |
| Net assets released from restrictions | - | 91,493 | 30,219 | 181,261 |
| Other revenue | 69,828 | 23,427 | 25,588 | 13,899 |
| Total support and revenue | <u>1,539,125</u> | <u>1,413,474</u> | <u>1,090,327</u> | <u>1,102,323</u> |
| Expenses: | | | | |
| Salaries & Benefits-Program Svcs. | 748,108 | 598,897 | 588,896 | 533,012 |
| Salaries & Benefits-General & Admin. | 193,001 | 164,350 | 185,577 | 151,741 |
| Consultants and professional services | 154,922 | 150,006 | 41,534 | 73,285 |
| Rent | 78,785 | 69,037 | 80,159 | 76,506 |
| Utilities | 42,591 | 44,681 | 30,912 | 41,196 |
| Telephone | 27,071 | 43,931 | 26,899 | 20,618 |
| Food, household, and program supplies | 71,994 | 59,896 | 56,848 | 74,464 |
| Insurance | 20,101 | 40,393 | 18,117 | 21,567 |
| Depreciation | 40,150 | 37,363 | 34,421 | 38,678 |
| Equipment rental | 28,927 | 15,781 | 14,392 | 11,510 |
| Office supplies | 13,082 | 15,893 | 8,507 | 7,884 |
| Fundraising expenses | - | 11,016 | - | - |
| Lab fees | 5,206 | 8,729 | 5,871 | - |
| Other expenses | 97,478 | 72,986 | 51,066 | 29,157 |
| Total expenses | <u>1,521,416</u> | <u>1,332,959</u> | <u>1,143,199</u> | <u>1,079,618</u> |
| Increase (decrease) in unrestricted net assets | 17,709 | 80,515 | (52,872) | 22,705 |
| Unrestricted net assets, beginning of year | <u>383,206</u> | <u>302,691</u> | <u>355,563</u> | <u>332,858</u> |
| Unrestricted net assets, end of year | <u>\$ 400,915</u> | <u>\$ 383,206</u> | <u>\$ 302,691</u> | <u>\$ 355,563</u> |

**Neighborhood House of North Richmond
Statement of Financial Condition**

| | <u>As of June 30</u> <u>2002</u> <u>(Unaudited)</u> | <u>2001</u> | <u>As of June 30</u> <u>2000</u> | <u>1999</u> |
|---|---|-------------------|-------------------------------------|-------------------|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash | \$ 140,467 | \$ 79,565 | \$ 54,761 | \$ 96,174 |
| Grants receivable | 95,317 | 115,542 | 127,121 | 43,673 |
| Pledges receivable | - | 7,500 | 8,000 | - |
| Deposits & Prepayments | 25,965 | 13,912 | 7,688 | 11,400 |
| Other receivables | 2,249 | 3,067 | 1,981 | 6,647 |
| Total Current Assets | <u>263,998</u> | <u>219,586</u> | <u>199,551</u> | <u>157,894</u> |
| | | | | |
| Fixed assets, net | <u>553,814</u> | <u>373,027</u> | <u>368,663</u> | <u>367,804</u> |
| | | | | |
| Total assets | <u>\$ 817,812</u> | <u>\$ 592,613</u> | <u>\$ 568,214</u> | <u>\$ 525,698</u> |
| | | | | |
| LIABILITIES & NET ASSETS | | | | |
| Current liabilities: | | | | |
| Accounts payable & Accrued expenses | \$ 22,085 | \$ 103,839 | \$ 57,962 | \$ 96,692 |
| Accrued personnel expenses | 63,056 | 44,576 | 94,498 | 43,225 |
| Deferred revenue | 25,400 | 18,835 | 21,571 | - |
| Line of credit | 41,913 | - | - | - |
| Total current liabilities | <u>152,454</u> | <u>167,250</u> | <u>174,031</u> | <u>139,917</u> |
| | | | | |
| Mortgage payable | <u>198,498</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | | |
| Total liabilities | 350,952 | 167,250 | 174,031 | 139,917 |
| | | | | |
| Unrestricted net assets | 400,915 | 383,206 | 302,691 | 355,563 |
| Temporarily restricted net assets | <u>65,945</u> | <u>42,157</u> | <u>91,492</u> | <u>30,218</u> |
| Total net assets | <u>466,860</u> | <u>425,363</u> | <u>394,183</u> | <u>385,781</u> |
| | | | | |
| Total liabilities and net assets | <u>\$ 817,812</u> | <u>\$ 592,613</u> | <u>\$ 568,214</u> | <u>\$ 525,698</u> |
| | | | | |
| Financial Ratios: | <u>Proforma (a)</u> | | | |
| | <u>6/30/01</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Debt Service Coverage (x) | 1.50 | - | - | - |
| Debt/Unrestricted Net Assets (x) | 5.32 | - | - | - |
| Margin (%) | | 5.70% | -4.85% | 2.06% |
| Current Ratio (x) | | 1.31 | 1.15 | 1.13 |

(a) Recalculates 2001 audited results to include the impact of this proposed financing. Also included is a full year of debt service for a loan that originated in November 2001. Credit is given for projected leasing of a portion of the available space in the new building.

Financial Discussion:

Neighborhood is a growing organization that has been modestly, although not consistently, profitable.

Neighborhood's unrestricted net assets have grown by 12% since 1999. Fluctuations in grants and donations however, which have historically been important revenue sources, have resulted in widely different annual margins. Grants and donations declined significantly in fiscal 2002, which may be attributed largely to the economic downturn.

However, Neighborhood derives strength from its diverse revenue sources. Government revenues, largely pass-throughs of federal awards for substance abuse treatment and prevention, account for 55% of total revenues. Client fees, primarily private insurance reimbursements, account for another 20%. The organization has further cultivated donations and other income sources.

The number of clients served has increased significantly since 1999, with detoxification clients increasing by nearly 50% and total clients nearly doubling. Contract revenue and client fees have also nearly doubled in that time period, while personnel expenses have risen by approximately 37%.

With this financing Neighborhood will be leveraged, but proforma debt service coverage indicates they are able to manage the debt.

Neighborhood currently exhibits a solid balance sheet, with a moderate debt to equity ratio of 43% (including mortgage debt assumed in fiscal 2002) and good liquidity.

Neighborhood will be paying approximately \$194,000 per year to service this new debt, but will be saving approximately \$83,000 in existing annual rent payments. Neighborhood also anticipates that the expansion of its residential programs will increase gross annual revenue by approximately \$600,000 within two years and that annual lease income (for leasing at least half of the remaining building space) will be \$81,000.

Although Neighborhood will be leveraged, and may deplete their available cash with this additional debt, they will be able to manage the increased debt as indicated by a proforma debt service coverage of 1.50x based on audited 2001 figures (and 1.22x as indicated by unaudited fiscal 2002 figures). It will be critical, however, for Neighborhood to lease the space that it will not occupy.

III. UTILIZATION STATISTICS:

| | <u>Number of Clients</u> ⁽¹⁾ | | | |
|-------------------------------------|---|--------------|--------------|--------------|
| | Fiscal Year Ended June 30, | | | |
| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> |
| Detoxification | 1,384 | 1,194 | 1,196 | 932 |
| Recovery - Treatment | 75 | 72 | 79 | 82 |
| County Alcohol/Drug Diversion | 54 | 54 | 50 | 50 |
| DUI counseling program | 380 | 366 | 350 | 345 |
| PC 1000 drug counseling | 45 | 53 | 25 | 0 |
| UA Pharmchem (drug testing) | 150 | 135 | 125 | 0 |
| HIV/AIDS awareness program | 650 | 400 | 300 | 0 |
| After school programs | 55 | 55 | 55 | 55 |
| Totals | <u>2,799</u> | <u>2,329</u> | <u>2,180</u> | <u>1,464</u> |
| Multicultural center (meals served) | 7,200 | 6,900 | 6,600 | 6,240 |

(1) Neighborhood's residential programs are Detoxification (with stays of 30 days or less) and Recovery (with stays up to 90 days). After school program figures represent the number of students enrolled. Other programs are for counseling, outreach, or testing.

IV. ORGANIZATION:

Background: Neighborhood House of North Richmond was created in 1954 as a comprehensive provider of employment, education, and health services for Richmond and San Pablo.

Since the late 1970's Neighborhood has provided residential treatment through the Hollomon Detox Program, with 17 beds for stays of 30 days or less and the Fauerso Recovery Program, with 17 beds for stays up to 90 days. Neighborhood also operates Transition House for graduates of its recovery programs in a facility that it purchased in November 2001. Neighborhood integrates these residential programs with life skills training, employment readiness, literacy, and culinary training.

Outpatient services include counseling for clients referred by the County (Alcohol/Drug Diversion Service) and referred by the courts (including the DUI Program and the PC 1000 drug treatment program). In the last two years Neighborhood has created outreach programs such as the Easter Hill Drug Awareness Program, in cooperation with the Richmond Housing Authority, and an HIV/AIDS prevention program. The Internet Project for Street Peace, a peer mentoring and violence prevention program created in 1998, was nominated for a Nobel Peace Prize in 2001.

Neighborhood's Multicultural Senior/Family Center provides hot meals daily to 25 seniors and disabled people, in addition to nutrition workshops and exercise programs. The Laura Hunter Education and Violence Prevention Center provides an after school tutoring program (in existence for over 20 years) and a Career Center (winner of a HUD Best Practices Award in 2000).

Licenses: The current facilities are licensed as adult residential alcohol or drug abuse recovery or treatment facilities by the State Department of Alcohol and Drug Programs. Neighborhood will seek the same licensing for the new facility.

Competition: Competing facilities in the service area are located in eastern Contra Costa County. Diablo Valley Ranch, with 62 beds, is located 30 miles away. East County Detox (11 beds) and Sunrise House (12 beds) are each over 25 miles away.

V. OUTSTANDING DEBT:

| <u>Description</u> | <u>Original Amount</u> | <u>Amount Outstanding As of 6/30/02</u> | <u>Estimated Amount Outstanding After Proposed Financing</u> |
|-------------------------------|------------------------|---|--|
| Existing: | | | |
| Mortgage loan, November 2001 | \$200,000 | \$198,498 | \$198,498 |
| Proposed: | | | |
| CHFFA HELP II Loan, 2002 | | | 400,000 |
| Low Income Housing Fund, 2002 | | | 726,850 |
| HealthCap/NCB | | | 726,850 |
| TOTAL DEBT | | <u>\$198,498</u> | <u>\$2,052,198</u> |

VI. SECTION 15438.5 OF THE ACT:

With the proposed HELP II Loan, Neighborhood will save an estimated \$11,350 per year (or an estimated \$170,000 over the life of the loan) in comparison with a commercial loan rate of 7.5%. Neighborhood will use these savings to lower costs to clients as well as offering more comprehensive services with enhanced service delivery.

VII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Neighborhood House of North Richmond in an amount not to exceed \$400,000 for a term of 15 years subject to a 2nd deed of trust acceptable to the Authority, securing the necessary financing from the Low Income Housing Fund and NCB (or other lenders acceptable to the Authority), receiving an appraised value providing a total loan to value of no greater than 95%, subject to the fiscal 2002 final audit being materially consistent with the financial information presented in this report, subject to environmental remediation satisfactory to the Authority, and subject to the standard HELP II loan provisions.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

Resolution Number HII-127

RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II 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 make secured or unsecured loans to participating health institutions, as defined;

WHEREAS, the Authority has previously established a HELP II Program to make loans to finance or refinance, among other things, all or a portion of the cost of acquiring certain equipment or constructing certain capital improvements (the “Project”) as authorized by the Act;

WHEREAS, **Neighborhood House of North Richmond** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan for the financing of the Project, and the application has been reviewed by the staff of the Authority and must be approved by the Authority;

WHEREAS, final 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 the amount of **\$400,000** for a term not to exceed **15 years** to construct and equip a new clinic as described in the application filed with the Authority, but solely to the extent there are available proceeds of the HELP II Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. Second lien Deed of Trust on the properties located at 770-23rd Street and 820-23rd Street, Richmond, California;
2. A lien on corporate gross revenues;
3. The Borrower providing evidence of the necessary equity and necessary financing from the Low Income Housing Fund and NCB (or other lenders acceptable to the Authority) to complete this financing as described in the summary presented to the Board;
4. A final appraised value on the properties providing a total loan to value of no greater than 95%;
5. Environmental remediation satisfactory to the Authority; and
6. Verification of receipt of grant from the Department of Commerce in the amount of \$1.5 million.

Section 2. The Executive Director and the Deputy Executive Director are each hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan approved pursuant to Section 1 hereof, and to approve any changes in the Project described in the application submitted to the Authority, as said officers 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, or than the Executive Director or Deputy Executive Director determines shall be funded from the HELP II Program. Any notice to an applicant approved hereunder shall indicate that the Authority shall not be liable to the applicant in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director or Deputy Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the HELP II Program fund not to exceed those amounts approved by the Authority for the Borrower approved in Section 1. The Executive Director or Deputy Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower in Section 1 any and all documents necessary to complete the transfer of funds.

Section 4. The Authority hereby finds that the loan approved in Section 1 is for a Project eligible for financing pursuant to provisions of the Act.

Section 5. Either the Executive Director or the Deputy Executive Director of the Authority is hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they deem 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 6. This resolution expires one year from the date approved.

Date Approved: October 31, 2002