

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Sanctuary House of Santa Barbara, Inc. ("SHSB") 222 W. Valerio Santa Barbara, CA 93101 Santa Barbara County	<b>Amount Requested:</b>	\$400,000
		<b>Requested Loan Term:</b>	15 years
		<b>Date Requested:</b>	March 25, 2004
		<b>Resolution Number:</b>	HII-166
<b>Project Site:</b>	The Sanctuary House Residential Treatment Center 222 W. Valerio, Santa Barbara CA (Santa Barbara County)		
<b>Facility Type:</b>	Transitional Residential Treatment Program		

**Use of Loan Proceeds:** Loan proceeds will lower SHSB interest costs by refinancing the Authority's 1992 STARTS Bonds, which have a 6.75% interest rate. This refinancing will result in a savings of approximately \$13,000 per year in debt service payments or a total of \$195,000 over the life of the loan.

<b>Type of Issue:</b>	HELP II Loan
<b>Prior HELP II Borrower:</b>	No, however, SHSB is a borrower under the STARTS program.
<b>Payment Status:</b>	Current

**Financial Overview:** SHSB has posted modest gains over the review period as it continues to recover from an unsuccessful program expansion. Although SHSB's balance sheet reflects a highly leveraged organization, the proforma debt service coverage is adequate and the operating cash flows will improve with the proposed HELP II and HealthCAP loans.

<b>Sources of Revenue:</b> (FYE 6-30-03)	<u>Amount</u>	<u>Percent</u>
Private housing fees	\$736,431	36%
Day treatment fee/support services	480,475	24%
Rental income	401,974	20%
County mental health fees	171,986	8%
Contributions	101,869	5%
Other	<u>150,737</u>	<u>7%</u>
Total revenue	<u>\$2,043,472</u>	<u>100.0%</u>

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$400,000	Refinance 1992 STARTS bonds	\$640,000
HealthCAP Loan*	276,900	STARTS reserve accounts shortage	17,600
		HELP II/HealthCAP financing costs	11,000
		STARTS net accrued int/fees	<u>8,300</u>
Total Sources	<u>\$676,900**</u>	Total Uses	<u>\$676,900</u>

\* Subject to HealthCAP loan underwriting and approval.

\*\* Standard HELP II loan guidelines require a 5% borrower contribution. This requirement is waived by staff since the loan to value ratio is less than 95%.

**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 in an amount not to exceed \$400,000 for a term not to exceed 15 years for Sanctuary House of Santa Barbara, Inc., subject to receipt of HealthCAP funds or another acceptable funding source and the standard HELP II loan provisions.

**STAFF SUMMARY AND RECOMMENDATION**

**Sanctuary House of Santa Barbara, Inc.  
("SHSB")**

**March 25, 2004**

**Resolution Number: HII-166**

- I. PURPOSE OF FINANCING:** Loan proceeds will be used to refinance the Authority's 1992 Series A STARTS bonds, which will reduce the debt service payments and improve the operating cash flow of SHSB.

<i>Refinance Authority 1992 Series A Bonds</i> .....	<b>\$640,000</b>
SHSB seeks to refinance the Sanctuary House Residential Treatment Center facility. The treatment facility has a 12-bed capacity to serve persons experiencing an acute episode of mental illness. Based on an estimated value of \$1.4 million, the new HELP II and HealthCAP loans will result in an acceptable combined loan to value ratio of 48%. The proposed loans will mature in 2019, one year before the bond maturity of 2020.	
<i>STARTS bonds reserve account shortage</i> .....	<b>17,600</b>
<i>STARTS bonds net accrued interest and fees</i> .....	<b>8,300</b>
<i>HELP II/HealthCAP Financing Costs</i> .....	<b><u>11,000</u></b>
Authority Fee .....	5,000
NCB Fees .....	6,000
<i>Total</i> .....	<b><u>\$676,900</u></b>

**Financing structure:**

- 15-year fully amortized loan in the amount of \$400,000 @ 3% for the HELP II loan.
- 15-year HealthCAP loan in the amount of \$276,900 @ approximately 6.25%.
- 180 equal monthly payments of approximately \$2,700 (annual payments of approximately \$32,000), for the HELP II loan.
- 180 equal monthly payments of approximately \$2,300 (annual payments of approximately \$28,000), for the HealthCAP loan.
- HELP II total interest payments of approximately \$97,000.
- Second position lien on property located at 222 W. Valerio, Santa Barbara, California.
- Loan to close concurrently with the NCBDC (HealthCAP) loan, which shall be in the first lien position.

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Sanctuary House of Santa Barbara, Inc. Statement of Activity

	For the five months ended November 30, 2003 (Unaudited)	For the year ended June 30, 2003	2002	2001
<b>Operating Revenue:</b>				
Private housing fees	\$ 293,313	\$ 736,431	\$ 646,511	\$ 600,587
Day treatment fees/in home supportive services	160,129	480,475	383,214	327,599
County mental health fees	152,782	171,986	180,696	206,463
Contributions	10,400	101,869	87,959	46,943
Rental income	207,939	401,974	367,747	344,085
Grants	44,173	88,784	33,137	-
Other revenue	4,428	61,953	124,879	84,500
Total revenues	<u>873,164</u>	<u>2,043,472</u>	<u>1,824,143</u>	<u>1,610,177</u>
<b>Operating Expenses:</b>				
Salaries and benefits	583,574	1,370,273	1,134,057	1,005,826
Consulting Fees	12,696	38,681	47,397	48,012
Professional fees	9,366	18,253	18,737	16,908
Interest	65,824	159,262	160,302	165,937
Depreciation and amortization	35,701	83,191	80,457	82,187
Telephone and utilities	33,144	79,737	76,199	81,873
Maintenance and repairs	19,653	59,093	78,383	26,863
Insurance	9,631	30,319	28,141	21,398
Food	13,825	29,783	29,375	30,859
Rent	38,250	15,050	12,250	12,950
Other	44,118	119,327	104,110	107,597
Total operating expenses	<u>865,782</u>	<u>2,002,969</u>	<u>1,769,408</u>	<u>1,600,410</u>
<b>Increase in net assets</b>	<b>7,382</b>	<b>40,503</b>	<b>54,735</b>	<b>9,767</b>
Net assets, beginning of year	<u>330,540</u>	<u>290,037</u>	<u>235,302</u>	<u>225,535</u>
Net assets, end of year	<u>\$ 337,922</u>	<u>\$ 330,540</u>	<u>\$ 290,037</u>	<u>\$ 235,302</u>

**Sanctuary House of Santa Barbara, Inc.**  
**Statement of Financial Position**

	<b>As of November 30,</b>	<b>2003</b>	<b>As of June 30,</b>	<b>2001</b>
<b>Assets</b>	<b>(Unaudited)</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
<b>Current Assets:</b>				
Cash and cash equivalents	\$	26,073	\$ 47,735	\$ 22,402
Investments		145,374	119,316	144,306
Accounts receivable, net		172,514	172,283	60,741
Prepaid expenses		4,050	4,050	4,050
Funds held in trust		97,058	97,058	93,468
Total Current Assets		445,069	440,442	324,967
Property, plant and equipment, net		3,031,718	3,064,768	3,166,286
Other assets		38,468	39,255	43,035
Total Assets	\$	3,515,255	\$ 3,544,465	\$ 3,534,288
<b>Liabilities &amp; Net Assets</b>				
<b>Liabilities:</b>				
Accounts payable	\$	19,346	\$ 21,807	\$ 37,776
Accrued payroll and related liabilities		47,186	50,384	34,510
Accrued interest		38,381	37,603	40,111
Current portion of vacation payable		44,942	33,127	27,167
Resident deposits		93,333	99,839	70,096
Current portion of long-term debt		74,650	74,650	64,689
Total current liabilities		317,838	317,410	274,349
Vacation payable		93,339	99,382	81,501
Long-term debt		2,766,156	2,797,133	2,943,136
Total Liabilities		3,177,333	3,213,925	3,298,986
Unrestricted net assets		(62,078)	(69,460)	(164,698)
Temporarily restricted net assets		400,000	400,000	400,000
Total net assets		337,922	330,540	235,302
<b>Total Liabilities &amp; Net Assets</b>	<b>\$</b>	<b>3,515,255</b>	<b>\$ 3,544,465</b>	<b>\$ 3,534,288</b>

**Financial Ratios:**

	<b>Proforma <sup>(a)</sup></b>			
Debt Service Coverage (x)	<b>1.29</b>	<b>1.21</b>	<b>1.30</b>	<b>1.12</b>
Debt/Unrestricted Net Assets (x)	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Margin (%)	<b>N/A</b>	<b>2.0%</b>	<b>3.0%</b>	<b>0.6%</b>
Current Ratio (x)	<b>N/A</b>	<b>1.39</b>	<b>1.31</b>	<b>1.18</b>

<sup>(a)</sup> Recalculates June 2003 results to include the impact of this proposed financing.

## **Financial Discussion:**

**SHSB has posted modest gains over the review period as it continues to recover from an unsuccessful program expansion.**

In 1992, SHSB partnered with the County of Santa Barbara to provide residential treatment services for county clients with funding provided solely by the county. In 1995, after negotiations to increase county funding for this program failed, costs were exceeding revenues by \$5,000 per month. In 1997, SHSB returned the facility and program to the county, but was left with a negative unrestricted net asset balance. Since 1997, SHSB management has focused on operating programs with multiple sources of funding to ensure its return to profitability.

Over the review period, SHSB has posted \$105,005 to its unrestricted net asset balance as revenue growth has slightly outpaced its expenditure increases. Operating revenues have increased by 27% over the past three fiscal years as management expanded the client base by 17% and held increases in expenses to 25%.

Multiple state and local grants, which represent a small portion of total revenues, is applied for as available. SHSB, in partnership with four nonprofit agencies and the County of Santa Barbara, received a Supportive Housing Initiative Act (SHIA) grant through the California Department of Mental Health that partially funded 2.5 staff positions that were filled in fiscal year 2002 and a full time therapist position that was filled in 2003. As the SHIA three-year grant cycle ends, SHSB management anticipates the newly created positions will continue as revenues from other sources continue to improve and as contributions continue to increase during the annual solicitation drive occurring December through February of each year.

Rental income is an additional source of income that has been boosted substantially over the review period. SHSB's owns 41 apartment rentals that had rent increases on average of 10% and the local housing authority authorized rental increases for Section 8 rents and Shelter Plus Care rates.

**Although SHSB's balance sheet reflects a highly leveraged organization, the proforma debt service coverage is adequate and the operating cash flows will improve with the proposed HELP II and HealthCAP loans.**

Throughout the review period, SHSB has been highly leveraged as total debt is near \$3 million and unrestricted net assets remain negative. However, the organization has acquired no new debt during the period and has improved its unrestricted net asset balance, with the expectation the balance will be positive by FYE 2005. Furthermore, all outstanding debt is paid current and the proforma debt service coverage ratio will be an acceptable 1.29x as the proposed refinance will decrease annual debt payments by approximately \$14,000.

SHSB has also shown improving liquidity over the review period even as two new revenue streams acquired in 2002 and passing through the Santa Barbara County Mental Health

Department are paid consistently 90-days behind schedule. These late payments substantiate the dramatic increase to accounts receivables reported in 2003 through the interim period.

Of note, SHSB maintains \$400,000 as temporarily restricted net assets. The \$400,000 represents a competitive grant award the organization received in 1995 from the County of Santa Barbara to purchase and operate units in a supervised independent living complex for mentally ill patients. According to the Memorandum of Understanding, effective at FYE 2004, the temporarily restricted assets will be decreased by \$20,000 and for each year after until 2023.

### III. UTILIZATION STATISTICS:

**Sanctuary House of Santa Barbara, Inc.  
Adult Inpatient/Outpatient Utilization**

Type of Service	Seven Months Ended			
	January	Fiscal Year Ended June 30		
	2004	2003	2002	2001
Inpatient Residential*	30	36	31	29
Outpatient Day Treatment	62	67	63	57
Drug/Alcohol	45	50	44	32
In Home Support Services	57	65	61	61
Supported Independent Living	50	52	51	52
<b>Totals</b>	<b>244</b>	<b>270</b>	<b>250</b>	<b>231</b>

\*Measured as number of clients

#### **IV. ORGANIZATION:**

**Background:** SHSB offers a continuum of treatment options for the emotionally disabled low income or indigent adults, ages 18-59. Founded in 1976 as Sanctuary House, a residential treatment facility, the agency gradually expanded services to meet the broad range of client needs. Comprehensive programming and ongoing follow-up services provide individualized support and treatment. The following programs and services are offered by SHSB:

- Sanctuary House: a residential treatment for persons experiencing an acute episode of mental illness.
- Satellite Program: a transitional support for persons no longer needing the intensive structure of a residential treatment facility.
- Graduate Program: a residential facility program for graduates of Sanctuary House that provides maximum independence while maintaining a therapeutic structure and support.
- Supported Independent Living Program: a program that offers several low-cost apartment complexes to provide maximum independence while maintaining a therapeutic structure and support.
- Outpatient Services: a support program that offers three levels of day services which are partial hospitalization, day treatment, and socialization/recreational activities.
- Vocational Services: a program of services assisting individuals in obtaining the skills necessary to become viable contributing members of the community.
- Counseling Services: a program promoting improved functional and communication within the family system as well as educational support.

In addition, SHSB operates a dual diagnosis and drug and alcohol program.

**Licenses:** SHSB is licensed as a Transitional Residential Treatment Program by the State Department of Mental Health, State Department of Drug and Alcohol, and the State Department of Social Services.

**Service Area and Competition:** Presently, there are no other providers within the SHSB service area. The nearest similar facilities are in Palo Alto (Santa Clara County) and Ramona (San Diego County), California.

SHSB is the only program in California that offers a broad continuum of care for mentally ill and dually diagnosed adults beginning with inpatient residential and concluding with support independent living apartments. The program in Palo Alto is a stand-alone residential program lacking any kind of continuum and strictly services private pay and insurance clients. The program in Ramona has a modest continuum but only serves a much lower functioning population.

**V. OUTSTANDING DEBT:**

Description	Original Amount	Amount Outstanding As of 6/30/03 (audited)*	Estimated Amount Outstanding After Proposed Financing
<b>Existing:</b>			
Santa Barbara Bank & Trust, 1996	\$ 1,425,000	\$ 1,281,774	\$ 1,281,774
CHFFA STARTS 1992 A	810,000	660,000	-
City of Santa Barbara Redevelopment Agency, 1997	560,000	469,016	469,016
City of Santa Barbara Community Development Department, 1996	540,391	460,993	460,993
<b>Proposed:</b>			
CHFFA HELP II Loan, 2004			400,000
National Cooperative Bank, 2004			276,900
<b>TOTAL DEBT</b>		<b>\$ 2,871,783</b>	<b>2,888,683</b>

\*Includes current portion.

**VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):**

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

SHSB has provided a description of its savings pass through in **Exhibit A**.

**VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):**

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) to advise each person seeking services at the borrower's facility as to the person's potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) to post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard "Certification and Agreement Regarding Community Service Obligation".

SHSB has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.



**VIII. 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.

**IX. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for a HELP II loan in an amount not to exceed \$400,000 for a term not to exceed 15 years for Sanctuary House of Santa Barbara, Inc., subject to receipt of HealthCAP funds or another acceptable funding source and the standard HELP II loan provisions.