

^ CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
The HELP II Program
EXECUTIVE SUMMARY

Applicant:	Strategies for Change. ("SFC") 4330 Auburn Blvd, Suite 2200 Sacramento, California Sacramento County	Amount Requested:	\$750,000
		Requested Loan Term:	15 years
		Date Requested:	March 29, 2007
		Resolution Number:	HII-191
Project Site:	4343 Williamsborough Drive, Sacramento, California		
Facility Type:	Chemical Dependency Facility		

Use of Loan Proceeds: Loan proceeds will be used to partially finance the purchase of a leased facility. The balance of the financing will be provided by a lender acceptable to the Authority. SFC will save approximately \$319,000 in interest payments over the life of the loan compared to a commercial loan at 7.5% interest per annum.

Type of Issue: HELP II Loan
Prior HELP II Borrower: No

Financial Overview: SFC is a growing organization that has demonstrated a generally breakeven financial performance. The balance sheet remains strong with good liquidity, a growing net asset balance and ability to manage the increased loan obligation.

Sources of Revenue:	<u>Amount</u>	<u>Percent</u>
(FYE 6-30-06) Grants and contracts	\$2,187,382	97%
Contributions	48,896	3%
Program fees	16,777	0%
Other income	<u>17,515</u>	<u>0%</u>
Total Revenue and Support	<u>\$2,270,570</u>	<u>100%</u>

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan (2 nd lien position)	\$750,000	Purchase Real Property	\$2,000,000
CCABADC Loan (1 st lien position)*	1,178,500	Other Costs	180,910
Equity Contribution	<u>301,610</u>	Financing Costs	<u>49,200</u>
Total Sources	<u>\$2,230,110</u>	Total Uses	<u>\$2,230,110</u>

* Subject to final loan approval by Community Capital Associates/Bay Area Development Corporation (CCABADC), expected to close concurrently with the HELP II loan. This loan will receive initial approval and is subject to final underwriting conditions.

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 Strategies for Change in an amount not to exceed \$750,000 for a term of 15 years.

STAFF SUMMARY AND RECOMMENDATION

STRATEGIES FOR CHANGE (“SFC”)

March 29, 2007

Resolution Number: HII-191

SECURITY PROVISION: SFC is requesting that the project be financed with a CCABADC loan in the first lien position along with a HELP II loan in the second lien position. Given SFC’s operating history without a long-term loan and the combined loan to value ratio of 95%, staff recommends the Authority accept a second lien position on the property.

I. PURPOSE OF FINANCING: SFC intends to purchase the property it currently leases at 4343 Williamsborough Boulevard in Sacramento. The project will build equity for SFC and the annual interest payments for the combined loans will be approximately \$140,000 less than the amount SFC currently pays to rent this property. The property is large enough to operate various programs and will provide room for a children’s play area, support onsite childcare, substance abuse treatment, outpatient perinatal services, and services for criminal justice clients in South Sacramento.

Purchase Real Property **\$2,000,000**

The property located at 4343 Williamsborough in Sacramento has two buildings connected by a breezeway with 13,300 square feet of space in 1.12-acre lot. The buildings are approximately 25 years old and are on a large lot with ample parking. The building on the east shall house perinatal programs, general outpatient and childcare for clients. The building on the west will house the Proposition 36 services, including the criminal justice program and day reporting center. The Sheriff’s Department will sub-lease 3,000 square feet. SFC entered into a lease-purchase agreement in July 2006 and intends to exercise its option to purchase the fully renovated property.

Other Costs **180,910**

Renovations \$ 119,000
Lease-Purchase Option Cost 61,910

Financing Costs **49,200**

Authority Closing Fee \$ 9,375
Title/Escrow/Other 12,453
NCBDC commitment fee 27,372

Total **\$2,230,110**

Financing structure:

- 15-year loan term, fully amortized.
- 180 equal monthly payments of approximately \$5,179 (total annual payments of approximately \$62,152).
- Total HELP II loan interest payments of approximately \$182,285.
- Maximum combined loan to value ratio of 95% (estimated value of \$2,030,000, consisting of direct loans through CCABADC of \$1,178,500, in first position, and a HELP II loan of \$750,000).
- Second position lien (Subordinate to CCABADC loan) on the property located at 4343 Williamsborough Drive, Sacramento, CA
- Corporate gross revenue pledge.
- Verification of lease- purchase option contract.
- Verification of a property appraisal satisfactory to the Authority.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Strategies for Change Statement of Activities (Unrestricted)

	For the year ended June 30		
	2006	2005	2004
<u>REVENUE</u>			
Grants and contracts	\$ 2,187,382	\$1,904,124	\$ 2,016,082
Contributions	48,896	55,669	125,163
Program fees	16,777	12,380	10,223
Other income	17,515	20,818	12,530
Total revenues	<u>2,270,570</u>	<u>1,992,991</u>	<u>2,163,998</u>
<u>EXPENSES</u>			
Salaries and related expenses	1,412,592	1,161,745	1,233,573
Contributed Services and Supplies	41,450	50,738	103,386
Equipment expenses	55,546	32,256	45,328
Food and beverage	17,710	18,214	26,166
Insurance	15,301	17,131	24,180
Occupancy	236,412	194,591	169,023
Office expense	13,861	12,263	35,067
Professional fees	53,486	28,820	41,596
Subcontractors	287,484	305,687	394,467
Supplies	59,180	31,312	26,174
Telephone	16,392	15,495	14,809
Travel	16,237	15,881	31,766
Other	25,782	24,755	13,794
Depreciation	17,346	14,239	10,204
Total expenses	<u>2,268,779</u>	<u>1,923,127</u>	<u>2,169,533</u>
Change in unrestricted net assets	1,791	69,864	(5,535)
Unrestricted net assets at beginning of year	158,849	88,985	94,520
Unrestricted net assets end of year	<u>\$ 160,640</u>	<u>\$ 158,849</u>	<u>\$ 88,985</u>

**Strategies for Change
Statement of Financial Position**

	As of June 30		
	2006	2005	2004
<u>Assets</u>			
Cash	\$ 225,793	\$ 110,112	\$ 156,632
Accounts receivable	218,979	159,678	209,703
Prepaid expenses	15,481	45,144	21,394
Office furniture and equipment	47,109	35,191	14,921
Deposits	27,887	12,887	19,147
Total Assets	535,249	363,012	421,797
 <u>Liabilities & Net Assets</u>			
Accounts payable	\$ 48,016	\$ 39,523	\$ 54,812
Accrued liabilities	101,620	111,683	128,869
Refundable advances	166,271	15,783	149,131
Bank line of credit	58,702	37,174	-
Total Liabilities	374,609	204,163	332,812
Unrestricted Net Assets	160,640	158,849	88,985
Total Liabilities & Net Assets	\$ 535,249	\$ 363,012	\$ 421,797

Financial Ratios:

**Proforma (a)
6/30/2006**

Debt Service Coverage (x)	1.31	5.17 (b)	62.48 (b)	-
Debt/Unrestricted Net Assets (x)	13.19	-	-	-
Margin (%)		0.08	3.51	(0.26)
Current Ratio (x)		1.30	1.61	1.22

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

(b) Reflects coverage only for short-term finance commitments.

Financial Discussion:

SFC is a growing organization that has demonstrated a generally breakeven financial performance.

SFC's patient visits expansion has not impacted its total revenue, which only increased 4% over the review period (2004 to 2006). Grant and contract revenue had a positive impact on the total revenue. Although revenue from contributions has been declining over the review period, it did not have any impact on total revenue, which has been stable and shows positive revenue trend.

Salaries and related expenses increased 14% due to salary and wage adjustments, and the addition of new positions. Other expenses, such as subcontractors, decreased significantly. As a result, total expenses increased only 4% over the review period.

Although unrestricted net assets increased 80% over the review period (due mostly to a significant drop in subcontractors' fees in 2005), SFC's operation shows marginal profitability. SFC's strategy has been to penetrate into the larger substance abuse market segments and to control the increase in occupancy cost resulting from the high cost of lease renewals. SFC anticipates additional funding of 20% for new programs, and the total revenue could exceed \$3 million in couple-of-years. The proposed financing will assist in a cost cutting strategy and expanding programs from the savings through low interest HELP II loans and operational efficiency.

The balance sheet remains strong with good liquidity, a growing net asset balance and ability to manage the increased loan obligation.

SFC's balance sheet reflects a growth rate of 26% over the review period. It has maintained positive cash flows with adequate liquidity, as demonstrated by a current ratio that has exceeded 1x. During 2005 and 2006, SFC utilized a line of credit to finance its operations and add new office furniture and equipment. With this new proposed loan, SFC will be highly leveraged, with a proforma debt-to-unrestricted net assets ratio of 13.19x. SFC will increase fixed assets and build equity, and management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 1.31x.

III. UTILIZATION STATISTICS:

Clients Served/(Patient Visits) Calendar Year Ended December 31

	2006	2005	2004	
Totals	1,474/(27,206)	1,001/(21,337)	921/(19,237)	

IV. ORGANIZATION:

Background:

SFC is a non-profit corporation founded in 1978 as Women's Stress Alternatives, with the original purpose of treating women addicted to prescription medications. It subsequently changed its name to Chemical Dependency Center for Women, and most recently changed its name to Strategies for Change on December 27, 2005. The mission is to provide education and counseling to women and their families to treat and prevent substance abuse.

By 2006, SFC had three different facilities to serve Sacramento County: one in Mid-town and two in South Sacramento. However, SFC faced the rising cost of renewing facility leases and wanted to provide better access to the expanding market in North Sacramento. In 2006, SFC planned to relocate its facilities with the strategy of beating the rising cost of occupancy and to expand its current programs.

By the end of January 2007, SFC relocated its Day Treatment-Outpatient Services and Administrative Office from Midtown to 4330 Auburn Blvd., in the northern part of Sacramento and closed its Midtown facility.

In July 2006, SFC executed a lease on a property at 4343 Williamsborough Boulevard in South Sacramento to relocate and consolidate in early 2007 the two South Sacramento facilities. The lease has an option to purchase the property by June 20, 2007. SFC desires to purchase the property for substance abuse treatment services for clients in South Sacramento.

Licenses:

Currently, the three chemical dependency facilities are certified by the State of California Department of Alcohol and Drug Programs (DADP) for day treatment and outpatient alcohol and other drug services. SFC's certifications will be transferred to the new South Sacramento locations once DADP has reviewed the new facility.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/06</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Proposed:			
CCABADC			\$1,178,500
CHFFA HELP II Loan, 2006			750,000
TOTAL DEBT		<u>\$-0-</u>	<u>\$1,928,500</u>

Note: SFC has no long-term liability, but has a current line of credit with Wells Fargo Bank (WFB) for \$105,000 at 12.75% with a balance of \$58,702 as of 6/30/06.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Section 15428.5 of the Act (Savings Pass Through) EIC has provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): EIC has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.
- Religious Due Diligence
- Legal Review`

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Strategies for Change in an amount not to exceed \$750,000 for a term of 15 years.