

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

(CHFFA)

The HELP II Loan Program

EXECUTIVE SUMMARY

<p>Applicant: The Effort, Inc. (the "Effort") 1820 J Street Sacramento, California 95814</p>	<p>Amount Requested: \$447,360 Date Requested: December 6, 2007 Requested Loan Term: 15 years Resolution Number: HII-210</p>																				
<p>Prior HELP II Borrower: No</p>																					
<p>Background: The Effort, dba Family Service Agency, a California nonprofit corporation, provides counseling, education, prevention and crisis intervention services relating to alcoholism, chemical dependency and mental health.</p>																					
<p>Uses of Bond Proceeds: Loan proceeds, along with equity funds, will be used to refinance real property and equipment loans, which currently have high interest rates. The HELP II loan will lower interest rates allowing the Effort to pass savings to their clinic operations.</p>																					
<p>Financing Structure:</p> <ul style="list-style-type: none"> • 15-year loan term. • 180 equal monthly payments of approximately \$3,089 (yearly payments of about \$37,073). • 1st position lien on property located at 7586 Stockton Boulevard, Sacramento, California. • Maximum loan to value of 95%: the estimated loan to value for the Effort is 89% based on a \$500,000 property valuation. • 1st lien on corporate gross revenue pledge. • Verification of a property appraisal satisfactory to the Authority. 																					
<p>Financial Overview: The Effort operates with profitability, which appears to be due to growing revenue and cost containment initiatives. The balance sheet remains strong with improved liquidity and likely demonstrates the Effort's ability to manage the proposed HELP II loan obligation. The proforma debt service coverage ratio is 17.04x.</p>																					
<table border="0" style="width: 100%;"> <tr> <td colspan="2"><u>Estimated Sources of Funds:</u></td> <td colspan="2"><u>Estimated Uses of Funds:</u></td> </tr> <tr> <td>HELP II loan</td> <td align="right">\$447,360</td> <td>Refinance real property</td> <td align="right">\$373,290</td> </tr> <tr> <td>Borrower funds</td> <td align="right">25,540</td> <td>Refinance equipment loan</td> <td align="right">92,020</td> </tr> <tr> <td></td> <td></td> <td>Financing costs</td> <td align="right"><u>7,590</u></td> </tr> <tr> <td>Total Sources</td> <td align="right"><u>\$472,900</u></td> <td>Total Uses</td> <td align="right"><u>\$472,900</u></td> </tr> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		HELP II loan	\$447,360	Refinance real property	\$373,290	Borrower funds	25,540	Refinance equipment loan	92,020			Financing costs	<u>7,590</u>	Total Sources	<u>\$472,900</u>	Total Uses	<u>\$472,900</u>
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																					
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution for a HELP II Loan for The Effort, Inc. in an amount not to exceed \$447,360 for a term of 15 years and financing terms acceptable to the Authority.</p>																					

STAFF SUMMARY AND RECOMMENDATION

The Effort, Inc. (“the Effort”)

December 6, 2007

Resolution Number: HII-210

I. PURPOSE OF FINANCING:

A description of the project is as follows:

***Refinancing Real Property Loan*373,290**

The first loan (with UMQUA Bank) was issued on August 15, 2001 for \$155,000, secured by a lien on the property located at 1820 J Street, Sacramento. The interest rate is 9.25% and the loan has an outstanding balance of approximately \$135,750. The second loan (with US Bank) was issued on September 9, 2004 for \$287,000, secured by a lien on the property located at 7586 Stockton Boulevard, Sacramento. The interest rate on this loan is 5.99% and the loan has an outstanding balance of approximately \$243,000.

***Refinancing Equipment Loan*92,020**

There are four equipment loans to be refinanced. The first loan (with Ford Credit) was issued on December 14, 2001 for \$24,038, secured by a lien on 2005 Ford E350 Van. The interest rate on this loan is 9.54% and the loan has an outstanding balance of approximately \$16,880. The second loan with (Washington Mutual Bank) was issued on July 10, 2003 for \$31,194 and is secured by a lien on computer equipment. The interest rate on this loan is 9.75% and the loan has an outstanding balance of approximately \$6,090. The third loan (with Washington Mutual Bank) was issued on October 15, 2003 for \$150,000, for the purchase of HVAC equipment. The interest rate on this loan is 9.75% and the loan has an outstanding balance of approximately \$38,580. The fourth loan (with Taylor & Lacy Properties) was issued on March 1, 2007 for \$33,117 and used for kitchen improvement. The interest rate on this loan is 9.25% and the loan has an outstanding balance of approximately \$30,460.

***Financing Costs* 7,590**

Authority Closing Fee..... \$5,590
Title/Escrow/Other..... 2,000

***Total*..... \$472,900**

II. FINANCIAL STATEMENTS AND ANALYSIS:

The Effort, Inc.
Statement of Activities
(Unrestricted)

	For the year ended June 30		
	2007	2006	2005
<u>Revenue</u>			
Government contracts and fees	\$ 5,184,244	\$ 4,528,161	\$ 2,733,086
Fee for service	580,070	592,055	468,931
Contributions, donating items and grants	465,268	430,781	116,768
Gain or (loss) on sales of fixed assets	220,323	-	(51,867)
Other	47,888	48,832	1,916
Net assets released from restrictions	71,913	81,866	-
Total support and revenue	6,569,706	5,681,695	3,268,834
<u>Expenses</u>			
Salaries and benefits	3,905,319	3,880,446	2,112,215
Professional fees	536,508	472,608	308,997
Supplies	346,277	274,182	174,536
Building-equipment rental and maintenance	474,354	442,914	215,034
Interest	66,344	57,525	44,809
Insurance and taxes	56,188	69,868	49,464
Telephone	75,264	87,830	101,211
Postage, printing and publications	14,588	10,376	28,686
Advertising and promotion	61,660	36,384	-
Travel, conferences and meetings	57,319	49,118	15,510
Depreciation	124,750	111,050	90,616
Donated items	162,753	157,213	10,506
Other	27,570	28,266	90,286
Total expenses	5,908,894	5,677,780	3,241,870
Change in net assets	660,812	3,915	26,964
Net assets at beginning of year	891,984	512,874	485,910
Net adjustment for merger with another entity	-	375,195	-
Net assets end of year	\$ 1,552,796	\$ 891,984	\$ 512,874

The Effort, Inc.
Statement of Financial Position

	As of June 30,		
	2007	2006	2005
<u>Assets</u>			
Cash and cash equivalent	\$ 462,934	\$ 409,794	\$ 133,890
Grants and other accounts receivable	651,979	612,162	335,677
Unconditional promise to give	72,267	81,327	-
Prepaid expenses	48,572	22,259	-
Total Current Assets	1,235,752	1,125,542	469,567
Investments	298,751	256,974	-
Unconditional promise to give	84,095	133,948	-
Other	-	-	29,682
Property and equipment	1,199,524	1,325,631	1,039,739
Total Assets	2,818,122	2,842,095	1,538,988
<u>Liabilities & Net Assets</u>			
Accounts payable	\$ 186,677	\$ 165,623	\$ 111,161
Accrued liabilities	266,956	254,260	130,773
Deferred revenue	156,257	250,995	171,333
Notes payable -current portion	68,490	110,220	104,632
Line of credit	-	380,000	55,000
Total Current Liabilities	678,380	1,161,098	572,899
Notes payable - net of current portion	418,892	573,738	453,215
Total Liabilities	1,097,272	1,734,836	1,026,114
Unrestricted Net Assets	1,552,796	891,984	512,874
Temporarily Restricted Net Assets	168,054	215,275	-
Total Net Assets	1,720,850	1,107,259	512,874
Total Liabilities & Net Assets	\$ 2,818,122	\$ 2,842,095	\$ 1,538,988

Financial Ratios:

	Proforma (a)			
Debt Service Coverage (x)	17.04	3.71	1.04	1.93
Debt/Unrestricted Net Assets (x)	0.29	0.31	0.77	1.09
Margin (%)		10.06	0.07	0.81
Current Ratio (x)		1.82	0.97	0.82

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion:

The Effort appears to continue to operate with profitability due to growing revenues and cost containment initiatives.

Although the Effort is dependent on government contracts and fees for 78% of the total support and revenue, it has demonstrated an ability to maintain fee for service revenue of 8% and contributions, donating items and other private grants of 7%. In addition, in 2007, the Effort added a several new government contracts, such as the Interim Care Program, the T3 Program, and had a Major Gift Program, all of which are anticipated to augment annual revenues.

In addition to experiencing a gain from the sale of fixed assets in 2007, there was a 14% increase in government contracts and fees, which contributed to a 15% increase in the total support and revenue for the review period.

Operating expenses only experienced a slight increase of 4% for the review period due to cost containment measures to salaries-related expenses and building-equipment rental and maintenance expenses. For example, in 2007, the Effort reduced its executive team to one CEO, one HR Director and one CFO.

The Effort's profitability has not been steady each year, and with the Effort's merger with Family Service Agency (FSA) in 2006, the gross margin was below 1% in 2006. Nevertheless, management's strategy for operational efficiency by controlling expenses while raising support and revenue resulted in a 10% increase to the gross margin in 2007. With this increased profitability, the unrestricted net assets increased 74% for the review period.

The balance sheet remains strong with improved liquidity and demonstrates the ability to manage the proposed HELP II loan.

The Effort's balance sheet reflects a growth rate of 84% in 2006, but for the review period, it decreased to 1%. Prior to the Effort's merger with FSA, both entities were struggling with their cash flows, and the current ratios for the Effort remained below 1.00x for 2005 and 2006. The Effort has since improved its financial strategy in 2007 and maintained positive cash flows with adequate liquidity, as demonstrated by a current ratio that has exceeded 1.80x. With the reduction in the long-term liability and the increase in the net assets in 2007, the Effort will remain minimally leveraged, with a proforma debt-to-unrestricted net assets ratio of .29x. The Effort will build equity as debts are paid off, and the Effort's management anticipates meeting all of its debt obligations, as evidenced by a proforma debt service coverage ratio of 17.04x.

III. UTILIZATION STATISTICS:

**Clients Served/(Patient Visits)
Fiscal Year Ended December 31 ***

	2007 >	2006	2005 +	2004
Totals	2,243 / (2,990)	4,417 / (5,889)	5,384 / (7,178)	4,278 / (5,704)

- * Utilization statistics are recorded for reporting cycle, which ends on December 31.
- + 2005 statistics included a grant program statistics, which was not relevant any more for this reporting.
- > 2007 statistics is actual first six months reporting.

IV. OUTSTANDING DEBT:

Description	Original Amount	Amount Outstanding As of 6/30/07 *	Estimated Amount Outstanding After Proposed Financing
Existing:			
US Bank, 2004	\$287,000	\$246,687	\$-0-
UMQUA Bank, 2001	155,000	136,202	-0-
Washington Mutual, 2003	150,000	46,881	-0-
Taylor & Lacy Properties, 2007	33,117	31,807	-0-
Ford Credit, 2001	24,038	17,981	-0-
Washington Mutual, 2003	31,194	7,824	-0-
Proposed:			
CHFFA HELP II Loan, 2007			447,360
TOTAL DEBT		\$487,382	\$447,360

*Includes current portion of long-term debt.

V. DUE DILIGENCE:

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

- Savings Pass Through: The Effort has provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): The Effort 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

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for The Effort, Inc. in an amount not to exceed \$447,360 for a term of 15 years and financing terms acceptable to the Authority.