

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Substance Abuse Foundation of Long Beach Inc. (“SAF”) 1041 Redondo Avenue Long Beach, California 90804 Los Angeles County</p>	<p>Amount Requested: \$454,000 Requested Loan Term: 15 year fixed Authority Meeting Date: Sept. 30, 2010 Resolution Number: HII-255</p>
<p>Project Site: 1085 Obispo Avenue, Long Beach, CA 90804, Los Angeles County</p>	
<p>Facility Type: Alcoholism recovery, chemical dependency recovery, and rehabilitation</p>	
<p>Prior HELP II Borrower: Yes (current loan balance is \$246,288, current on payments).</p>	

Background: Founded in 1988 as a nonprofit organization, SAF has a 22-year history of providing comprehensive residential and outpatient drug/alcohol rehabilitation and treatment, mental health care, and care for special needs patients. SAF serves approximately 1,500 homeless and low-income clients per year through its treatment, housing and supportive services programs. SAF reports that it is the largest and most experienced organization of its kind, serving people with HIV/AIDS in the Long Beach/South Bay area of Los Angeles, as well as the largest provider of treatment and rehabilitation services in the Long Beach/South Bay area for people with a history of drug-related arrests.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing variable rate loan, which currently has a balance of approximately \$478,000. The refinance of this loan will reduce the interest rate from a variable rate of 6.99% to a fixed 3% and will reduce the 30-year term of the loan to a 15-year term, resulting in interest savings of approximately \$11,300 per year.

Financing Structure:

- 180 monthly payments of approximately \$3,135 (yearly payments of approximately \$37,620).
- First (1st) lien position on the property located at 1085 Obispo Avenue, Long Beach, CA 90804.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is 67%).
- Corporate gross revenue pledge.

Financial Overview: SAF’s income statement appears to exhibit positive operating results with continued revenue growth. SAF’s balance sheet appears strong with good liquidity and a strong current ratio. In addition, the proforma debt service coverage appears to be a very solid 11.36x.

Estimated Sources of Funds:

HELP II funds	\$454,000
Borrower’s funds	<u>31,000</u>
Total Sources	<u>\$485,000</u>

Estimated Uses of Funds:

Refinance	\$478,000
Financing costs	<u>7,000</u>
Total Uses	<u>\$485,000</u>

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: *(Included for the purpose of discerning conflicts of interest)*

First American Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-255 for Substance Abuse Foundation of Long Beach Inc. in an amount not to exceed \$454,000, for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with the Authority’s staff recommendations.

I. PURPOSE OF FINANCING: The proceeds of the HELP II loan will enable SAF to refinance its current loan on an existing property with a more favorable interest rate, thus reducing interest expense. This refinance will reduce operating expenses.

Refinance loan with Community Commerce Bank \$ **478,000**

SAF intends to refinance an existing loan of \$478,000 with Community Commerce Bank. The original loan was obtained in August 2006 and was used for acquiring the property located at 1085 Obispo Avenue, Long Beach, CA 90804. This loan has a variable interest rate of 6.99% with a 30-year term and a monthly payment of \$3,359. The loan is secured by a two-story structure with approximately 3,936 square feet located on a 0.149 acre lot. The building consists of eight one-bedroom units. This facility provides 24-hour supportive transitional housing for homeless, indigent and very low-income men and women. Residents of the facility are clients who have completed their primary phase of treatment and are continuing to access on-going treatment and supportive services on an outpatient basis.

SAF will be providing CHFFA staff with a written appraisal to support the current market value of the property. SAF's management opines the estimated current market value to be \$675,000, leading to an estimated loan to value of 67%.

Financing Costs 7,000

Authority Fees	\$5,675
Title and Escrow	<u>1,325</u>

Estimated Uses of Funds \$ 485,000

II. FINANCIAL STATEMENTS AND ANALYSIS
Substance Abuse Foundation of Long Beach, Inc.
Statement of Activities
Unrestricted

	For the Year Ended June 30,		
	2009	2008	2007
REVENUE AND SUPPORT			
Government grants and contracts*	\$ 4,368,231	\$ 3,932,660	\$ 3,282,561
Service fees	269,252	351,140	204,401
Contributions	31,477	87,179	65,293
Interest income	3,183	2,224	162
Gain (loss) on sale of asset	(3,903)	352,276	-
Net assets released from restrictions	-	41,232	600
Miscellaneous	169,141	36,798	75,932
Total revenue and support	4,837,381	4,803,509	3,628,949
EXPENSES			
Salaries, wages and stipends	2,027,599	1,891,042	1,517,270
Payroll taxes	334,717	317,802	328,205
Consulting	330,717	296,260	184,771
Food	243,624	178,462	239,626
Interest expense	203,595	209,219	250,129
Rent	152,321	132,458	75,051
Depreciation expense	150,071	103,724	113,175
Utilities	149,281	161,586	165,373
Repairs and maintenance	108,463	87,107	23,246
Insurance	83,897	89,042	112,319
Telephone	78,165	80,594	89,821
Accounting and legal	71,425	63,085	52,088
Residential supplies	66,370	55,710	72,441
Office expense	44,200	17,470	18,744
Bad debts	34,104	59,805	3,071
Automobile expense	33,846	27,168	34,283
Medical costs	29,891	20,666	20,634
Tax, licenses and fees	23,766	69,980	24,715
Other	60,169	135,790	120,221
Total expenses	4,226,221	3,996,970	3,445,183
Increase in net assets	611,160	806,539	183,766
Adjustment from prior year	-	-	(56,717)
Unrestricted net assets, beginning of year	956,018	149,479	22,430
Unrestricted net assets, end of year	\$ 1,567,178	\$ 956,018	\$ 149,479

*Government grants and contracts for FYE June 30, 2009

<u>Payor Source</u>	<u>Percent</u>
Contract-CalWorks Outpatient	25.44%
Contract-Calworks Experience S	12.66%
Contract-CalWorks Residential	11.07%
Contract-Care Day Treatment	10.27%
Contract-Care Residential	6.13%
Contract-Care Transitional	5.42%
Contract-Forever Free Resident	3.82%
Contract-General Relief OP	3.78%
Contract-General Relief B & C	3.61%
Contract-HOPWA	3.09%
Contract-MediCal A ODF	3.04%
Contract-Dep Mental Health	1.79%
Contract-Parolee Resid Program	1.77%
Contract-Prop 36 Residential	1.68%
Contract-Prop 36 Outpatient	1.39%
Contract-Prop 36 Outpat. Dual	1.36%
Contract-PSN Outpatient	0.87%
Contract-PSN Residential	0.70%
Contract-PSN Sober Living	0.48%
Contract-PSSF	0.47%
Contract-SAMHSA-MHO	0.42%
Contract SAMHSA- MOR	0.39%
Contract SAMHSA-TEAM	0.18%
Contract-Veterans Administ	0.14%
Contract-Walden House	0.04%
Total of Grants/Contracts	<u>100.00%</u>

Substance Abuse Foundation of Long Beach, Inc.

Balance Sheet

	As of June 30,		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
ASSETS			
Cash and cash equivalents	\$ 793,422	\$ 392,192	\$ 175,533
Accounts receivable	787,001	789,164	516,536
Prepaid expenses and deposits	18,221	6,841	37,408
Other assets	-	-	16,746
Property and equipment, net	<u>3,046,023</u>	<u>2,718,590</u>	<u>3,102,824</u>
Total Assets	<u><u>\$ 4,644,667</u></u>	<u><u>\$ 3,906,787</u></u>	<u><u>\$ 3,849,047</u></u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	\$ 73,926	\$ 171,741	\$ 111,787
Accrued expenses	107,099	98,295	135,369
Cost settlement payable	43,411	101,717	103,015
Capital leases	166,697	4,714	32,260
Notes payable	2,634,134	2,511,406	3,275,905
Deferred revenue	<u>52,222</u>	<u>62,896</u>	<u>-</u>
Total liabilities	<u><u>3,077,489</u></u>	<u><u>2,950,769</u></u>	<u><u>3,658,336</u></u>
Net assets:			
Unrestricted	1,567,178	956,018	149,479
Temporarily restricted	<u>-</u>	<u>-</u>	<u>41,232</u>
Total net assets	<u><u>1,567,178</u></u>	<u><u>956,018</u></u>	<u><u>190,711</u></u>
Total liabilities and net assets	<u><u>\$ 4,644,667</u></u>	<u><u>\$ 3,906,787</u></u>	<u><u>\$ 3,849,047</u></u>

Financial Ratios:

	Proforma (a)			
	<u>FYE June 30, 2009</u>			
Debt service coverage (x)	11.36	10.94	2.74	1.28
Debt/Unrestricted Net Assets (x)	1.96	1.96	2.57	15.26
Margin (%)		9.47	16.79	5.06
Current Ratio (x)		4.57	3.20	2.54

(a) Recalculates 2009 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

SAF's income statement appears to exhibit positive operating results with continued revenue growth.

SAF operating results appear to be improving over the review period with an increase in unrestricted assets of \$183,000 and improving to \$442,000 in FY 2009. Although patient visits have declined, SAF has maintained revenue growth during the review period due to additional in-kind donations and government grants and contributions to rehabilitate three buildings. In line with the increase in revenues from services, expenses (including salaries, wages, payroll taxes and employees benefits) have also increased. In general, there have been little or no material changes from year-to-year for line item revenues and expenses.

Particular Facts to Note:

- Although total revenues appear to have declined slightly in FY 2009 to \$4.68 million from \$4.80 million in FY 2008, revenues appear to have been amplified in FY 2008 due to the sale of real property (\$352,000) in that year.
- Repairs and maintenance costs have increased by 367% to \$108,463 due to increases in repair and maintenance of the 19 buildings owned by SAF.
- In FY 2008, taxes increased by approximately \$49,000 or 200% associated with property taxes for the previous two years.

Financial Discussion – Statement of Financial Position (Balance Sheet)

SAF's balance sheet appears strong with good liquidity and a strong current ratio. In addition, the proforma debt service coverage appears to be a very solid 11.36x.

For FY 09, SAF's balance sheet appears solid with good liquidity of over \$793,000 (constituting 17% of its total assets) in cash and a current ratio of 4.57x. SAF's proforma long-term debt to unrestricted net assets is 1.96x, indicating that SAF appears to be leveraged. In all, SAF should be able to repay the proposed HELP II loan.

Particular Facts to Note:

- Cash and cash equivalents increased significantly over the review period (352%), with a cash on hand equivalent of 68 days. SAF management reports the increased cash on hand is due to the addition of three contracts from the US Department of Health and Human Services, Substance Abuse and Mental Health Services Administration (SAMHSA). In 2009, SAF also added two additional service components (outpatient and Sober Living) to its largest contract with the State of California, Department of Corrections and Rehabilitation.
- A 12% increase in property and equipment in FY 2009 is due to the completion of its first major building renovation, with funding from the State of California, Department of Housing and Community Development, Emergency Housing Assistance Program Capital Development (EHAPCD).

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served (Patient Visits) for Fiscal Year Ended June 30,

	2010	2009	2008
Totals	1553	1729	1655

EXHIBIT 2

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding* As of 30-Jun-09	Estimated Amount Outstanding after Proposed Financing
Existing Long-Term Debt:			
Community Commerce Bank, 2006	\$500,000	\$478,809	\$0
Investors Trust Deed, 2004	200,000	189,070	189,070
Clearing House CDFI, 1998	756,000	651,476	651,476
NoteWorld Contract Service, 2004	208,000	150,748	150,748
CHFFA HELP II Loan, 2003	400,000	252,695	252,695
Wells Fargo Bank, 2010	420,000	419,456	419,456
Wells Fargo Bank, 2010	246,000	245,682	245,682
Proposed:			
CHFFA HELP II Loan, 2010		N/A	454,000
TOTAL DEBT		<u>\$2,387,936</u>	<u>\$2,363,127</u>

* Includes current portion of long-term debt.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Founded in 1988 as a nonprofit organization, SAF has a 22-year history of providing comprehensive residential and outpatient drug/alcohol rehabilitation and treatment, mental health care and care for special needs patients. SAF provides comprehensive assessment, treatment planning, individual management and referrals, relapse prevention services, mental health and behavior-change services, vocational and job readiness/retention services, on-the-job skills training, and several other employment-related skills.

SAF serves approximately 1,500 homeless and low-income clients per year in its treatment, housing and supportive services programs. Housing programs serve individuals and single-parenting adults with children. Special populations served include CalWORKS (Welfare-to-work) and other public benefits recipients, persons that are dual-and-triple-diagnosed with substance abuse, mental health and medical diagnoses, persons living with or are at-risk for infections of HIV/AIDS and their families/significant others, homeless veterans and people on probation in Los Angeles County. SAF is the largest and most experienced organization of its kind, serving people with HIV/AIDS in the Long Beach/South Bay area of Los Angeles. It is also the largest provider of treatment and rehabilitation services in the Long Beach/South Bay area for people with histories of drug-related arrests.

Licensure, Certification and Accreditation

All of SAF's residential facilities are licensed and certified by the State of California, Department of Alcohol and Drug Programs. SAF's outpatient facilities and rehabilitation services are certified by the State of California, Department of Alcohol and Drug Programs. All of SAF's treatment and supportive housing programs and services are nationally accredited by the Commission on Accreditation of Rehabilitation Services (CARF).