

**CHFFA HELP II PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Center for Recovery from Compulsivities, Inc. (“CRC”) 14100 ½ Glengyle Street Whittier, CA 90604 Los Angeles County</p>	<p><b>Amount Requested:</b> \$587,000  <b>Requested Loan Term:</b> 15 year fixed  <b>Authority Meeting Date:</b> Sept. 30, 2010  <b>Resolution Number:</b> HII-256</p>
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**Project Site:** H.O.W. House, 14100 Glengyle Street, Whittier, CA 90604  
**Facility Type:** Alcohol recovery, chemical dependency recovery, and rehabilitation  
**Prior HELP II Borrower:** No

**Background:** Founded in 1990, CRC provides rehabilitation and community living service to residents of Los Angeles County in need of chemical addiction and/or substance abuse treatment.

**Uses of Loan Proceeds:** Loan proceeds will be used to refinance two existing mortgage loans. The two loans have a combined balance of approximately \$587,000, with 7% and 7.75% interest rates respectively. The refinancing of these loans will result in an estimated annual interest savings of \$28,500.

**Financing Structure:**

- 180 equal monthly payments of approximately \$4,054 (yearly payments of approximately \$48,648).
- First (1st) lien position on the property located at 14100 Glengyle Street, Whittier, California 90604.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 75%).
- Corporate gross revenue pledge.

**Financial Overview:** CRC’s income statement appears to show marginal losses in operations over the review period. CRC’s financial statement appears adequate with a proforma debt service coverage ratio of 1.32x.

**Estimated Sources of Funds:**

HELP II Loan (1 <sup>st</sup> )	\$587,000
Grant*	7,300
Borrower Funds	<u>1,700</u>
Total Sources	<u>\$596,000</u>

**Estimated Uses of Funds:**

Refinance 1 <sup>st</sup> Mortgage loan	\$537,000
Refinance 2 <sup>nd</sup> Mortgage loan	50,000
Financing costs	<u>9,000</u>
Total Uses	<u>\$596,000</u>

\* The McCabe Foundation awarded CRC a \$33,224 grant in FY 09. CRC intends to use a portion of the grant at this time.

**Due Diligence:** Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Community and Service Obligation documentation. All documentation satisfies the Authority’s requirements.

**Parties of Interest:** Not applicable

*(Included for the purpose of discerning Conflicts of Interest)*

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-256 for the Center for Recovery from Compulsivities in an amount not to exceed \$587,000 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 HELP II loan will refinance two existing mortgage loans. The two loans are \$537,000 and \$50,000 with 7.75% and 7% interest rates, respectively. The refinance of these loans will result in an estimated annual interest savings of \$28,500.

***Refinance first mortgage loan*** ..... \$ ***537,000***

CRC intends to refinance an existing loan with Friendly Hills Bank. The loan is secured by real property located at 14100 Glengyle Street (3,017 square foot facility located on a 0.56 acre lot), which has an estimated current market value of \$700,000, according to CRC management. The loan has a variable interest rate of 7.75%, with a monthly payment of \$4,000, and a balloon payment of \$479,000 due in September 2017. Prior to closing, CHFFA staff will require a full appraisal, demonstrating satisfaction of the Authority's maximum loan to value ratio policy of 95%.

***Refinance second mortgage loan*** ..... \$ ***50,000***

CRC intends to refinance an existing loan payable to a current board member of CRC originated in July 2007. The loan is fixed at 7% and requires a monthly payment of \$690. This loan has a balloon payment due July 1, 2017 in the amount of approximately \$19,500. The loan was used to consolidate several smaller loans.

***Financing Costs*** ..... ***9,000***

Authority Fees..... \$7,338

Title and Escrow ..... *1,662*

***Estimated Uses of Funds*** ..... ***\$ 596,000***

## II. FINANCIAL STATEMENTS AND ANALYSIS

### The Center for Recovery from Compulsivities, Inc.

#### Statement of Activities

(Unrestricted)

	For the Year Ended December 31,		
	2009	2008	2007
<b>Revenue and support:</b>			
Resident fees*	\$ 131,282	\$ 108,554	\$ 110,110
Grants	33,224	-	250,000
Walnut House	11,515	-	-
Donations	10,055	19,180	12,373
Other	4,985	1,919	5,357
Total revenue and support	<u>191,061</u>	<u>129,653</u>	<u>377,840</u>
<b>Expenses:</b>			
Mortgage Interest	46,229	43,509	15,973
Compensation and related expenses	32,762	17,920	18,129
Utilities and telephone	13,529	15,691	16,024
Depreciation Expense	13,109	12,973	5,876
Rent	13,100	-	31,500
Supplies	12,847	4,809	4,681
Repairs	12,328	7,061	6,317
Food	8,749	3,153	5,551
Insurance	6,892	6,541	5,305
Other	26,869	32,469	14,433
Total expenses	<u>186,414</u>	<u>144,126</u>	<u>123,789</u>
<b>Change in unrestricted net assets</b>	<b>4,647</b>	<b>(14,473)</b>	<b>254,051</b>
Unrestricted net assets, beginning of year	<u>205,515</u>	<u>219,988</u>	<u>(34,063)</u>
Unrestricted net assets, end of year	<u>\$ 210,162</u>	<u>\$ 205,515</u>	<u>\$ 219,988</u>

\*Indicates that all fees came directly from clients.

**The Center for Recovery from Compulsivities, Inc.**  
**Financial Position**

	As of December 31,		
	2009	2008	2007
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 15,684	\$ 12,529	\$ 22,035
Accounts receivable	8,451	-	-
Total current assets	24,135	12,529	22,035
Property and equipment, net	775,554	787,574	798,547
Total assets	\$ 799,689	\$ 800,103	\$ 820,582
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Accrued liabilities	\$ 1,410	\$ 1,109	\$ 2,634
Current portion long-term debt	9,016	4,956	1,568
Total current liabilities	10,426	6,065	4,202
Long term liabilities:			
Loans payable	579,101	593,479	597,960
Less current portion long-term debt	-	(4,956)	(1,568)
Total long term liabilities	579,101	588,523	596,392
Total liabilities	589,527	594,588	600,594
Net assets:			
Unrestricted	210,162	205,515	219,988
Total net assets	210,162	205,515	219,988
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 799,689</b>	<b>\$ 800,103</b>	<b>\$ 820,582</b>

**Financial Ratios:**

**Proforma (a)**  
**FYE December, 2009**

Debt service coverage (x)	1.32	1.25	0.93	17.27
Debt/Unrestricted Net Assets (x)	2.79	2.80	2.89	2.72
Margin (%)		2.43	(11.16)	67.24
Current Ratio (x)		2.31	2.07	5.24

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

## **Financial Discussion – Statement of Activities (Income Statement)**

**CRC's income statement appears to show marginal gains/losses in operations over the review period.**

CRC's Statement of Activities reveals a seemingly thin operating margin - close to break-even operations in the past three fiscal years. CRC is primarily supported by resident fees, which have shown an increase of 19% over the review period. In addition, patient visits and a demand for services have increased as well.

### **Particular Facts to Note:**

- CRC has benefited from capitol injections, specifically a \$250,000 grant in FY 07 and another \$33,224 grant in FY 09 from the McCabe Foundation. Without these grants, CRC would have posted marginal losses in both of these years. To strengthen its operations, CRC's management reports they have succeeded in soliciting referrals of parolees from the California Department of Corrections and Rehabilitation ("CDCR"). Additionally, CRC's management has increased its service fee for non-CDCR clients starting June 2010 through June 2011. Furthermore, CRC management has marketed its program to small businesses in the city of Whittier and its neighboring communities. Also, CRC's management has attempted to establish contracts with selected local unions and employee assistance programs.
- The Walnut House category under Revenue and Support refers to the revenues from a sober house operation in La Habra that CRC operated in FY 2009. The operations were discontinued due to lack of referrals which has ultimately resulted in a monthly savings of \$13,100 (rental of the facility).

## **Financial Discussion – Statement of Financial Position (Balance Sheet)**

**CRC's financial strength appears adequate with a proforma debt service coverage ratio of 1.32x.**

### **Particular Facts to Note:**

- The proforma debt to unrestricted net assets ratio is highly leveraged at 2.79x due to the acquisition of the property (to be refinanced) in 2007.
- CRC appears to have managed its current liabilities adequately, as evidenced by its current ratio of 2.31x. The current ratio indicates that CRC appears to have sufficient liquidity to meet its short-term obligations.
- The existing debt service coverage ratio is 1.25x. With the proposed financing, the proforma debt service coverage ratio improves to 1.32x, indicating that CRC should be able to repay the HELP II loan.

- In FY 2009, cash and cash equivalents were \$15,000, which represents 33 days of cash on hand, which is close to an acceptable minimal level. However, according to CRC's management, as of June 30, 2010 the current amount on hand is \$36,000 which represents 75 days of cash on hand.
- In FY 2009, accounts receivables increased to \$8,451 due to a 45-day delay in payment from the CDRC for rendered services.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

**Patient Visits for Fiscal Year Ended December 31,**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Totals</b>	75	56	41

**EXHIBIT 2**  
**OUTSTANDING DEBT**

<b>Date Issued</b>	<b>Original Amount</b>	<b>Amount Outstanding* As of 30-Jun-09</b>	<b>Estimated Amount Outstanding after Proposed Financing</b>
<b>Existing Long-Term Debt:</b>			
Friendly Hills Bank	\$550,000	\$537,477	\$0
Ted Marshburn (Board Member)	50,000	50,000	0
<b>Proposed:</b>			
CHFFA HELP II, 2010		N/A	<b>587,000</b>
<b>TOTAL DEBT</b>		<b>\$587,477</b>	<b>\$587,000</b>

\* Includes current portion of long-term debt.



## EXHIBIT 3

### BACKGROUND AND LICENSURE

#### **Background**

Founded in 1990 by the recovery community, CRC provides rehabilitation and community living service to those residents of Los Angeles County in need of chemical addiction and/ or substance abuse treatment. CRC operates H.O.W. House, located in South Whittier, California, as a recovery home for men 18 and over.

The services offered at H.O.W. House include sober living, supportive lodging, weekly group meetings, monthly educational sessions on specific aspects of the recovery and/or addiction process, and recreational activities designed to help the resident learn how to enjoy their sobriety. H.O.W. House is a working house which means a resident is given one month from their arrival to obtain a full time job or to start an educational or vocational program. If a client is unable to work for verifiable medical reasons and cannot participate in an educational or vocational program, the client will be expected to perform thirty (30) hours per week of community service either for H.O.W. House or another charitable agency in the Whittier area.

#### **Licensure, Certification and Accreditation**

CRC is licensed by the State of California Department of Alcohol and Drug Programs to operate and maintain an adult residential alcohol and/or drug abuse recovery or treatment facility located at 14100 ½ Glengyle Street, Whittier, CA 90604.