

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Tulare Youth Service Bureau, Incorporated (“Tulare”) 327 South K Street Tulare, CA 93274 Tulare County</p> <p>Project Site: 305 South K Street, Tulare, CA 93274</p> <p>Facility Type: Community Mental Health Facility for children’s mental services</p> <p>Eligibility: Government Code section 15432(d)(16)</p> <p>Prior HELP II Borrower: Yes (2007, Balance paid in full in 2013)</p>	<p>Amount Requested: \$1,500,000</p> <p>Requested Loan Term: 20-year fixed</p> <p>Annual Interest Rate: 2%</p> <p>Authority Meeting Date: June 28, 2018</p> <p>Resolution Number: HII-315</p>
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Background: Tulare is a private nonprofit organization, its program is a community-based approach to the provision of children’s mental health services. Tulare’s mission is to provide children and families compassionate, culturally sensitive mental health services that nurture hope, strength, and healthy relationships at home, school, and in the community. Tulare is located in the San Joaquin Valley. The total clients served as of June 2017 is 2,021.

Use of Loan Proceeds: Loan proceeds will be used to renovate one of Tulare’s existing commercial buildings into additional office and meeting room spaces. Due to an increased client pool and added staff, the renovation of additional office space will aid in Tulare to provide better service to its community and improving its programs. The low-cost, fixed-rate HELP II loan will allow Tulare to maintain stability and longevity of its programs and operations.

Financing Structure:

- First lien on real property is located at 305 South K Street, Tulare, CA 93274
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$7,588 (annual payments of approximately \$91,059)
- A current appraisal that is acceptable to the Authority staff
- Corporate gross revenue pledge
- Executed construction contract
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is approximately 75%)
- Verification of borrower funds to close escrow

Financial Overview: Tulare’s income statement appears to display strong operating results from FY 2015 to FY 2017 with increasing net assets each year. Tulare’s balance sheet appears strong with a FY 2017 pro-forma debt service coverage ratio of 5.25x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$1,500,000	Renovation	\$1,556,250
Borrower funds	77,000	Financing costs	20,750
Total Estimated Sources	\$1,577,000	Total Estimated Uses	\$1,577,000

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: Chicago Title Company

Staff Recommendation: Staff recommends approval of Resolution Number HII-315 for Tulare Youth Service Bureau, Incorporated, in an amount not to exceed \$1,500,000 for a term not to exceed 20 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 recommendation.

I. PURPOSE OF FINANCING:

Tulare’s main facility is located at 327 South K Street, Tulare, CA. The 17,000 square foot facility houses 40 therapists, 10 case managers, a Psychiatrist and Licensed vocational nurse, administrative and clerical staff, various therapy rooms, and a conference room. Tulare has experienced increases in grant funding as well as staff and client growth, such that they are outgrowing their current facilities. With the renovation, Tulare will be able to invest in more training opportunities, promoting programs, and implementing electronic health records. Tulare currently has approximately 80 employees and rents a portable modular unit to house some of the employees it does not have space for. Tulare has services it would like to expand but needs the additional office space to do so.

Renovation **\$1,556,250**

In December 2016, Tulare purchased the property at 305 South K Street, Tulare, CA, which is directly adjacent to the current facility, with the intention of fully renovating the interior. Tulare will use the Help II Loan to finance the renovation of the project site which has 10,000 total square feet with approximately 7,550 square feet of usable space. Tulare plans to use that space for 20 offices, one large conference room, a storage area, a small break area, and a recreation area for various client activities. The construction is expected to begin in August 2018 and be completed in approximately eight months.

The HELP II loan will be secured by a first (1st) lien position on the property at 305 South K Street Tulare, CA 93274. An appraisal will be completed prior to closing to ensure a loan-to-value ratio of less than 95%. Tulare estimates the value of the property at \$2 million, resulting in an estimated loan-to-value ratio of 75%. Prevailing wages will be paid and will be included as conditional language in the construction contract.

Financing Costs **20,750**

Authority Fees	\$18,750
Closing Costs.....	<u>2,000</u>

Total Uses of Funds **\$1,577,000**

II. FINANCIAL STATEMENTS AND ANALYSIS:

Tulare Youth Service Bureau, Incorporated Statement of Activities (Income Statement)

	As of June 30,		
	2017	2016	2015
Revenues:			
Grants - county mental health	\$ 5,137,568	\$ 4,810,780	\$ 4,944,876
Grants - other	1,986,122	1,516,875	1,195,277
Fees and insurance	11,290	53,231	49,122
Interest income	2,849	2,778	2,997
Other income	1,419	5,843	21,817
*Total revenues	7,139,248	6,389,507	6,214,089
Expenses:			
Salaries	4,312,582	4,173,506	3,766,232
Fringe benefits and payroll taxes	1,418,577	1,319,205	1,149,189
Repairs and maintenance	25,599	20,506	23,077
Communications	133,866	109,490	98,420
Travel, conference and training	52,742	29,776	46,969
Professional and technical services	17,011	15,106	50,924
Contractual maintenance	85,582	83,488	78,885
Outside labor	194,750	98,271	59,999
Office supplies	45,164	54,160	43,471
Utilities	44,416	40,229	40,080
Printing, copying and advertising	8,234	9,407	6,599
Rents and leases	46,490	40,860	37,515
Insurance	63,681	70,785	59,407
Therapy/program supplies	26,037	24,264	27,585
Transportation	81,069	82,315	78,057
Equipment	20,557	32,540	18,920
Depreciation	71,113	72,791	116,408
Other	85,041	95,341	103,355
Total expenses	6,732,511	6,372,040	5,805,092
Change in net assets	406,737	17,467	408,997
Net assets, beginning of period	4,937,071	4,389,329	3,980,332
Prior period adjustment	-	530,275	-
Net assets, end of period	\$ 5,343,808	\$ 4,937,071	\$ 4,389,329

***Total revenues for FYE June 30,**

<u>Payor Source</u>	<u>2017</u>	<u>2016</u>
Medi-Cal (grants-county mental health)	72%	75%
Grants (grants-other)	28%	25%
Other (fees and insurance, interest, and other income)	0%	0%
Total	100%	100%

Tulare Youth Service Bureau, Incorporated
Statements of Financial Position
(Balance Sheet)

	As of June 30,		
	2017	2016	2015
Assets			
Current assets:			
Cash and cash equivalents	\$ 3,561,434	\$ 3,520,847	\$ 3,499,381
Grants receivable	1,009,101	849,088	180,840
Prepaid expenses and other current assets	223,777	225,945	184,321
Total current assets	<u>4,794,312</u>	<u>4,595,880</u>	<u>3,864,542</u>
Noncurrent assets			
Fixed assets, net of accumulated depreciation	897,464	643,976	709,984
Total noncurrent assets	<u>897,464</u>	<u>643,976</u>	<u>709,984</u>
Total assets	<u>\$ 5,691,776</u>	<u>\$ 5,239,856</u>	<u>\$ 4,574,526</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 10,111	\$ 83	\$ -
Accrued payroll	92,063	90,964	-
Accrued vacation	245,794	211,738	185,197
Total current liabilities	<u>347,968</u>	<u>302,785</u>	<u>185,197</u>
Net assets:			
Unrestricted	5,343,808	4,937,071	4,389,329
Total net assets	<u>5,343,808</u>	<u>4,937,071</u>	<u>4,389,329</u>
Total liabilities and net assets	<u>\$ 5,691,776</u>	<u>\$ 5,239,856</u>	<u>\$ 4,574,526</u>
	Proforma		
	<u>FYE June 30, 2017</u>	2017	2016
Debt Service Coverage - Operating	5.25	-	-
Debt to Unrestricted Net Assets (x)	0.28	-	-
Margin (%)		5.70	0.27
Current Ratio (x)		13.78	15.18
		6.58	20.87

Financial Discussion – Statement of Activities (Income Statement)

Tulare’s income statement appears to display strong operating results from FY 2015 to FY 2017 with increasing net assets each year.

Tulare has exhibited consistent growth in revenue over the review period, from approximately \$6.2 million in FY 2015 to approximately \$6.4 million in FY 2016, and to approximately \$7.1 million in FY 2017, an average of about 5% each year. Revenue from the county mental health grants, as reimbursements from Medi-Cal, represents approximately 72% of the total revenue. According to Tulare’s management, increases in revenue can be attributed to the addition of two to three therapists each fiscal year and each therapist generates about \$100,000 in additional revenue. The additional staff was driven by the increased demand for services.

Revenue from other grants represents approximately 28% of the total revenue and has increased an average of 29% each fiscal year. According to Tulare’s management, Tulare received the Full Service Partnership Grant in FY 2014 and FY 2015 and the grant award for these years was set at \$1 million using the Mental Health Services Act (Prop 63) monies. For FY 2016 and FY 2017, Tulare was granted an award increase to \$1.3 million. Tulare was also awarded the Building Bridges Grant, an early intervention/prevention grant to assist clinicians helping mothers with their symptoms of depression and thusly on their ability to bond with the baby and other children in their care. Tulare received 300,000 for the Building Bridges Grant in FY 2017.

Total expenses increased nearly 16% from approximately \$5.8 million in FY 2015 to approximately \$6.7 million in FY 2017. With the growth of Tulare staffing due to demand of services, salaries have commensurately increased, from approximately \$3.7 million in FY 2015 to \$4.3 million in FY 2017. Fringe benefits and payroll taxes have also risen to approximately \$1.4 million in FY 2017 from approximately \$1.1 million in FY 2015, a 23% increase.

Particular Facts to Note:

- Fees and insurance have decreased over the review period from approximately \$49,000 in FY 2015 down 78.8% to approximately \$11,000 in FY 2017. According to Tulare’s management, the significant decrease can be attributed to Tulare County no longer allowing Tulare to bill private insurances. Tulare County requires that private insurance clients should go to private clinicians. However, Tulare still has some private insurance clients as sometimes Tulare is the only outlet for those clients.
- Other Income consisting of fundraising and donations has decreased 73.2% from approximately \$22,000 in FY 2015 to approximately \$5,800 and decreased 75.7% to approximately \$1,400 in FY 2017. According to Tulare’s management, other income dropped as Tulare discontinued its fundraising events in FY 2017, but still received some
- Outside labor increased from approximately \$60,000 in FY 2015 to approximately \$195,000 in FY 2017. According to Tulare’s management, outside labor increased in FY 2016 due to the need for outside computer services as Tulare upgraded its services to a new server. In FY 2017 the increase was due to the reclassification of an outside labor agreement for \$96,000 with Woodlake School District. Tulare originally included Woodlake School District salary and wages into their salary and wages and later Tulare re-classed Woodlake School District to outside labor.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Tulare’s balance sheet appears strong with a FY 2017 proforma debt service coverage ratio of 5.25x.

Tulare has experienced steady growth over the last three fiscal years. Total liabilities and net assets increased from approximately \$4.6 million in FY 2015 to \$5.7 million in FY 2017. Tulare total assets increased primarily due to increasing grants receivable which increased from \$180,840 in FY 2015 to approximately \$1 million in FY 2017. According Tulare’s management, the growth of Tulare’s balance sheet is due to the increase in grant revenue and a steady increase in its Medi-Cal revenue. The large increase in grants receivables is due to the delay of funds paid by Tulare County.

Tulare has demonstrated the ability to repay its debt by paying off a prior loan with CHFFA in 2013. At this time Tulare does not have any short-term or long-term debt. With the new HELP II loan, Tulare’s FY 2017 pro-forma debt service coverage ratio appears to be 5.25x and the debt-to-unrestricted net assets ratio appears to be 0.28x, which indicates Tulare’s ability to make payments on the new debt.

Particular Facts to Note:

- Total current liabilities increased from approximately \$185,000 in FY 2015 to approximately \$348,000 in FY 2017. According to Tulare’s management, the total current liabilities has risen due to a small increase in accrued vacation and the recognition of accrued payroll in each year.

EXHIBIT 1

UTILIZATION STATISTICS

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

	2017	2016	2015
Totals	2,021/ (36,381)	2,094/ (40,876)	2,242/ (39,075)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of June 30, 2017</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT:</i>			
		\$ -	\$ -
<i>PROPOSED NEW DEBT</i>			
<i>CHFFA HELP II Loan (2018)</i>			1,500,000
<i>TOTAL DEBT</i>		<u>\$ -</u>	<u>\$ 1,500,000</u>

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Tulare opened in 1971 as a “drop-in center” for at risk youth and expanded to provide services in all Tulare City schools and outlying rural communities. In 1987, the Agency was able to partner with Tulare County Mental Health and expand services under the Federal EPSDT (Early, Periodic Screening, Diagnosis and Treatment) Medi-Cal program. Also in 1980’s, Tulare recognized the need to have a well-trained team to serve children and families impacted by sexual abuse. Annually, Tulare maintains efforts to secure grant funding to support this program. In 2009, under the newly funded Mental Health Services Act, Tulare successfully expanded its Parent-Child Interaction Therapy Program to some the most rural areas of Tulare County.

Tulare’s programs components include:

- **School Based Mental Health Services** – Tulare recognized the need to work with children in the school setting. Many children served may be demonstrating behavioral challenges in the school setting. By working with the child in this natural setting, outcomes can be improved. Additionally, the consistent presence of a Tulare therapist at a school site enhances Tulare’s relationships with the schools themselves. Being available to respond to high risk and crisis situations, while providing support and guidance also improves outcomes.
- **Health Boundaries/Child Sexual Abuse Treatment** – Tulare’s Healthy Boundaries program provides individual, family and group therapies for child victims, their non-offending caregivers and other family members struggling with the impact the abuse has had on the victim and family.
- **Therapy** – In 2007, Tulare began the first Parent-Child Interaction Therapy (PCIT) program in Tulare County. PCIT is an evidence-based practice designed to improve the parent-child relationship, reduce negative and oppositional behaviors in children and parents, improve positive parenting skills and produce long-term positive outcomes for families.
- **Crisis Intervention** – This service provides mental health treatment for children with a mental health problem that can’t wait for a regular scheduled appointment. Crisis intervention can last up to eight hours and be provided in a clinic or provider office, over the phone, or in the home or other community setting.

Licensure, Certification, and Accreditation

Tulare is certified by the Tulare County Health & Human Services Agency to operate Mental Health Services, Case Management/Brokerage, Crisis Intervention, and Medication Support.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-315

**RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN
PARTICIPATING HEALTH INSTITUTIONS**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Tulare Youth Service Bureau, Incorporated** (the “Borrower”), a California participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower in an amount not to exceed **\$1,500,000** for a term not to exceed **20 years** for the purpose described in the application filed with the Authority (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 20-year, two percent (2%) fixed rate loan;
2. First lien position on real property located at 305 South K Street, Tulare, CA 94520;
3. A current appraisal that is acceptable to Authority staff;
4. Corporate gross revenue pledge;
5. Executed construction contract;
6. Loan to value ratio not to exceed 95%; and
7. Verification of Borrower’s funds to close escrow.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loans may not be increased above the amount approved by the Authority and provided further that the loans continue to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: _____