

CHFFA HELP II LOAN PROGRAM EXECUTIVE SUMMARY

Applicant: Eggleston Youth Centers, Inc. (“Eggleston”) 13001 Ramona Blvd., Suite E Irwindale, CA 91706 Los Angeles County	Amount Requested: \$560,500 Requested Loan Term: 20-year fixed Annual Interest Rate: 2% Authority Meeting Date: July 26, 2018 Resolution Number: HII-316
Project Site: Located in Pomona, CA 91767	
Facility Type: Group Home	
Eligibility: Government Code section 15432(d)(14)	
Prior HELP II Borrower: Yes (August 2013 – approximately \$740,577 outstanding as of June 30, 2018)	
Background: Eggleston is a nonprofit social service agency that has been providing services to children and families in Los Angeles County since 1974. Eggleston’s mission is to expand opportunities and enhance the quality of life of children and families by providing support, guidance and comprehensive residential, foster family and adoption, family preservation mental health and substance abuse services.	
Use of Loan Proceeds: Loan proceeds will be used to finance the purchase of a six-bedroom group home for six foster youth. The facility will be Medi-Cal certified by the Department of Health Care Services, which will allow Eggleston to provide on-site behavioral health services.	
Financing Structure: <ul style="list-style-type: none">• First lien on real property located in Pomona, CA 91767• 20-year, two percent (2%) fixed rate loan• 240 equal monthly payments of approximately \$2,835 (annual payments of approximately \$34,026)• A current appraisal that is acceptable to the Authority staff• Corporate gross revenue pledge• Loan to value ratio not to exceed 95% (estimated loan to value ratio is approximately 95%)• Verification of borrower funds to close escrow	
Financial Overview: Eggleston’s income statement appears to display strong operating results in calendar year 2017 and FY 2015 with a slight dip in FY 2016. Eggleston’s balance sheet appears solid with decreasing total debt and an increasing ability to repay outstanding debt.	
<u>Estimated Sources of Funds:</u>	<u>Estimated Uses of Funds:</u>
HELP II Loan	Purchase real property
Borrower funds	Financing costs
Total Estimated Sources	Total Estimated Uses
\$ 560,500	\$ 590,000
38,500	9,000
<u>\$ 599,000</u>	<u>\$ 599,000</u>
Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, and Community Service Requirement documentation. All documentation satisfies the Authority’s requirements.	
Parties of Interest: Fidelity National Title Company	
Staff Recommendation: Staff recommends approval of Resolution Number HII-316 for Eggleston Youth Centers, Inc. in an amount not to exceed \$560,500 for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. TAP International, the Authority’s financial analyst, concur with the Authority’s staff recommendation.	

I. PURPOSE OF FINANCING:

Eggleston is seeking to expand services with the purchase of a six-bedroom residential home for six foster youth. The expanded services will meet the requirements of the California Department of Social Services' ("CDSS") – Continuum of Care Reform, which mandates group homes be converted to Medi-Cal certified Short-Term Residential Treatment Programs ("STRTP"). Under STRTP, residential programs must have the capacity to provide on-site behavioral health services, including a confidential room, to placed youth residing at the facility. The STRTP facility will be licensed through CDSS and will be Medi-Cal certified through the California Department of Health Care Services.

***Purchase Real Property*..... \$590,000**

HELP II loan proceeds will be used to purchase a 3,077 square foot property located in Pomona, CA. The move-in ready property consists of six bedrooms and four bathrooms. The home has central air and heat and is on a 6,555 square foot lot with a detached garage. The facility will be licensed for six youth, two per room. The additional bedrooms will be used for offices and a multi-purpose room for family visits, recreation, and social worker visits.

The HELP II loan will be secured by a first (1st) lien position on the property. An appraisal will be completed prior to closing to ensure a loan-to-value ratio of less than or equal to 95%. Eggleston estimates the value of the property at \$590,000, resulting in an estimated loan-to-value ratio of 95%.

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

Authority Fees	\$7,000
Estimated Escrow/Title Fees	<u>2,000</u>

Total Uses of Funds \$599,000

II. FINANCIAL STATEMENTS AND ANALYSIS:

Eggleston Youth Centers, Inc. Statement of Activities

	As of	For the year ended December 31,		
	6/30/2017 [†] (6 months)	2017 [†] (unaudited)	2016 [†]	2015 [†]
Revenues:				
Grants and contracts*				
Adoptions	\$ 10,000	\$ 10,000	\$ -	\$ -
Day treatment	20,604	28,868	-	-
Daynite treatment	300	300	-	-
Drug and alcohol	54,839	113,049	-	-
Foster family agency	1,538,920	2,887,678	-	-
Mental health	580,961	1,092,541	-	-
Mental health IT	1,206	-	-	-
Residential services	2,339,176	4,677,262	-	-
Grants and contracts	-	-	8,453,361	8,340,476
Program service revenue	-	-	681	153,205
Other	-	28,996	-	-
Total grants and contracts	4,546,006	8,838,694	8,454,042	8,493,681
Other:				
Contributions and donations	2,870	-	516	1,322
Investment income	-	-	74	110
Interest	74	-	-	-
Gain on sale of asset	-	-	976	400
Other	-	-	-	2,992
Total other	2,944	(532)	1,566	4,824
Total revenues	4,548,950	8,838,162	8,455,608	8,498,505
Expenses:				
Employee compensation				
Salaries	2,151,511	4,420,275	4,273,198	4,178,483
Payroll taxes	129,853	264,435	317,121	318,816
Medical insurance	109,135	256,284	245,033	268,584
Retirement contribution	10,974	52,105	77,118	57,800
Workers compensation insurance	123,321	237,859	175,272	210,871
Unemployment insurance	17,010	28,849	21,069	24,469
Other	37,760	20,505	65,305	32,594
Total employee compensation	2,579,564	5,280,311	5,174,116	5,091,617

(Continued)

	As of	For the year ended December 31,		
	6/30/2017 [†]	2017 [†]	2016 [†]	2015 [†]
	(6 months)	(unaudited)		
Non-payroll expenses				
Administrative services	174,492	354,241	386,512	310,090
Building related	100,898	631,564	625,321	568,750
Building rents	220,137	-	-	-
Child related	691,505	1,532,493	1,588,398	1,627,309
Contract services	127,004	291,329	276,470	222,646
Depreciation	37,114	70,684	80,929	69,365
Food and related	81,831	160,764	159,333	168,631
Interest and related	15,842	29,286	24,852	29,239
Vehicles and related	39,179	77,481	79,633	93,669
Total non-payroll expenses	1,488,002	3,147,842	3,221,448	3,089,699
Total expenses	4,067,566	8,428,253	8,395,564	8,181,316
Increase in net assets	481,384	409,909	60,044	317,189
Net assets, beginning of year	522,537	522,537	455,176	158,767
Prior period adjustments	-	-	7,317	(20,780)
Net assets, end of year	\$ 1,003,921	\$ 932,446	\$ 522,537	\$ 455,176

[†] Eggleston's audited financial statements were prepared by a new accountant in 2017. With the new accountant, the FY end changed from December 31 to June 30, and the single revenue line item of Grants and contracts in FY's 2016 and 2015 is displayed in FY 2017 as multiple line items under the heading Grants and contracts.

***Grants and contracts revenue for FYE**

Payor Source	2017	2016
Med-Cal	14%	15%
Private pay	86%	85%
Total	100%	100%

**Eggleston Youth Centers, Inc.
Statement of Financial Position**

Assets	As of	As of December 31,	
	6/30/2017[†] (6 months)	2016[†]	2015[†]
Current assets:			
Cash and cash equivalents	\$ 620,007	\$ 187,975	\$ 434,989
Grants receivable	784,279	-	-
Accounts receivable	-	1,155,956	691,465
Prepaid expenses	2,799	11,741	12,788
Total current assets	1,407,085	1,355,672	1,139,242
Fixed assets:			
Property and equipment	1,078,370	-	-
Buildings	-	1,127,166	1,127,166
Furniture and equipment	-	277,025	270,189
Vehicles	-	330,816	330,816
Leasehold improvements	-	54,833	40,608
Accumulated depreciation	-	(689,494)	(608,565)
Total fixed assets	1,078,370	1,100,346	1,160,214
Other assets:			
Refundable deposits	25,277	25,277	24,927
Total assets	<u>\$ 2,510,732</u>	<u>\$ 2,481,295</u>	<u>\$ 2,324,383</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 36,050	\$ 198,933	\$ 215,829
Accrued expenses	193,262	-	-
Accrued payroll and payroll taxes	-	186,000	181,753
Accrued vacations	258,039	239,020	176,959
DCFS overpayments payable	37,065	37,064	54,399
Deferred revenue	64,635	203,054	23,817
Note payable CHFFA HELP II - current portion	59,835	-	-
Note payable vehicle - current portion	7,504	-	-
Loan payable - current portion	110,000	-	-
Current portion of long term debt	-	271,246	203,136
Total current liabilities	766,390	1,135,317	855,893

(Continued)

	As of 6/30/2017 [†] (6 months)	As of December 31, 2016 [†] 2015 [†]	
Long term liabilities			
Vehicle loans payable	-	15,256	37,723
Loans from former Executive Director	-	170,000	290,000
Wells Fargo line of credit	-	80,000	-
Note payable - CHFFA HELP II - net of current portion	740,420	829,430	888,726
Less: Current portion of long term debt	-	(271,246)	(203,136)
Total long term liabilities	740,420	823,440	1,013,313
Total liabilities	1,506,810	1,958,757	1,869,206
Net assets:			
Unrestricted	1,003,922	522,538	455,177
Total net assets	1,003,922	522,538	455,177
Total liabilities & net assets	\$ 2,510,732	\$ 2,481,295	\$ 2,324,383

[†] Eggleston's audited financial statements were prepared by a new accountant in 2017. With the new accountant, the fiscal year end changed from December 31 to June 30, and the multiple line items under the Fixed Assets heading in FY's 2016 and 2015 are displayed in the single line item of Property and equipment under the Fixed Assets heading in FY 2017.

Financial Ratios:

	Proforma ^(a) FYE June 30, 2017			
Debt Service Coverage (x)	4.14	1.70	0.73	1.74
Debt/Unrestricted Net Assets (x)	1.36	0.80	1.94	2.67
Margin (%)		4.64	0.71	3.73
Current Ratio (x)		1.84	1.19	1.33

^(a) Recalculates FY 2017 audited results to include the impact of this proposed financing

*In September 2017, Eggleston changed its fiscal year end from December 31 to June 30. Eggleston's county contracts are based on a June 30 fiscal year end, and the Los Angeles County's Contracts Division recommended Eggleston change its accounting period to match. Eggleston's Board of Directors then authorized the change to the agency's accounting period. The **audited** FY 2017 Statement of Activities (Income Statement) covers a six month period (January 2017-June 2017) and therefore cannot be accurately compared to the full years of FY 2016 & FY 2015 (fiscal year end December 31). In order to compare a full year for 2017, Eggleston submitted an **unaudited** Income Statement for the year ending December 31, 2017. The following analysis of the Income Statement takes into account the audited six month report and the unaudited full year report.*

Financial Discussion – Statement of Activities (Income Statement)

Eggleston's income statement appears to display strong operating results in calendar year ("CY") 2017 and FY 2015 with a slight dip in FY 2016.

Eggleston's operations appear to result in an increase to total net assets each year, approximately \$317,000 in FY 2015, approximately \$60,000 in FY 2016, and approximately \$410,000 in CY 2017. Eggleston experienced an increase of 4% in total revenue from approximately \$8.5 million in FY 2015 to approximately \$8.8 million in CY 2017. According to Eggleston's management, the increase can be attributed to a cost of living increase from CDSS. Over the same period, Eggleston's total expenses grew 3%, from approximately \$8.2 million in FY 2015 to approximately \$8.4 million in CY 2017. The dip in operating results in FY 2016 appears due to total revenues remaining unchanged at \$8.5 million combined with a slight increase in total expenses of approximately \$200,000. According to Eggleston's management, program service revenue for FY 2015 included an Independent Life Skills Program that taught foster youth independent living skills such as financial literacy, resume writing, how to dress properly for job interview, cultural enrichment, and computer skills. The program was not renewed for FY 2016, which reduced program revenue by approximately \$153,000. Eggleston's greatest expense of salaries grew from approximately \$4.2 million in FY 2015 to approximately \$4.3 million in FY 2016. According to Eggleston's management, the increase in salaries from FY 2015 to FY 2016 was a result of hiring the two staff who coordinated the Life Skills Program.

The Eggleston audited financial Statement of Financial Position (Balance Sheet) were reported for the dates of December 31, 2015, December 31, 2016, and June 30, 2017. The Balance Sheet is a point-in-time reporting of assets, liabilities, and net assets and provides a snapshot of what an entity owns and owes, unlike the Statement of Activities (Income Statement) which reports performance over a period of time, usually a full fiscal year. For comparative purposes, therefore, we found it acceptable to use the different period end dates for analysis of any trends in Eggleston's fiscal condition using financial measures such as the Debt to Unrestricted Net Assets that are only derived from the Balance Sheet amounts.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Eggleston's balance sheet appears solid with decreasing total debt and an increasing ability to repay outstanding debt.

Eggleston's debt service coverage ratio appears to fluctuate from 1.74x in FY 2015, down to 0.73x in FY 2016, and then up to 1.7x in FY 2017. Eggleston appears to have had large annual debt payments with a current portion of long term debt of approximately \$203,000 in FY 2015, approximately \$271,000 in FY 2016, and approximately \$177,000¹ in FY 2017. The amounts of \$7,504 for the vehicle loan and \$110,000 for the Executive Director loan payable represent the final amounts due for each loan and anticipated to be paid during FY 2018. According to Eggleston's management, the vehicle loan was paid in full on May 15, 2018, and the Executive Director loan payable was paid in full on April 1, 2018. With the two loans paid in full, CHFFA's 2013 HELP II loan is Eggleston's only outstanding long term debt. The 2018 HELP II loan will add an annual debt repayment of approximately \$34,000, bringing Eggleston's total annual debt repayment to approximately \$123,000, which results in a pro-forma FY 2017 debt service coverage ratio of 4.14x.

Eggleston appeared to reliably repay its existing debt with total long term liabilities decreasing from approximately \$1 million in FY 2015 to approximately \$740,000 in FY 2017. Along with the decreasing debt, Eggleston's debt-to-unrestricted net assets ratio also showed significant improvements, decreasing from 2.67x in FY 2015 to 0.8x in FY 2017. With the added debt of the new HELP II loan, Eggleston's pro-forma FY 2017 debt-to-unrestricted net asset ratio will slightly increase to an acceptable level of 1.36x.

¹ Includes amounts from the balance sheet of \$110,000 for the Executive Director loan payable; \$7,504 for the vehicle loan; and \$59,835 for Note payable CHFFA HELP II.

III. UTILIZATION STATISTICS

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Totals	594 / (14,866)	651 / (14,381)	626 / (15,265)

IV. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding^(a) As of June 30, 2017</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA HELP II Loan			
October 2013	\$ 1,000,000	\$ 800,255	\$ 800,255
Settlement Agreement			
August 2014 ^(b)	450,000	110,000	110,000
-PROPOSED NEW DEBT:			
CHFFA HELP II Loan, 2018		-	560,500
-TOTAL DEBT		<u>\$ 910,255</u>	<u>\$ 1,470,755</u>

^(a) Includes current portion of long-term debt

^(b) The settlement agreement between Eggleston and the widow of the former Executive Director regarded a disagreement about the amount owed relating to loans the former Executive Director made to Eggleston, terms for repayments, and to whom loan repayments were to be made.

V. BACKGROUND AND LICENSURE

Background

Eggleston is nonprofit social service agency that has been providing services to children and families in Los Angeles County since 1974. Eggleston's mission is to expand opportunities and enhance the quality of life of children and families by providing support, guidance and comprehensive residential, foster family and adoption, family preservation mental health and substance abuse services that are spearheaded by a philosophy of Children and Families First.

Program Services:

- Residential Treatment Program (Group Home) – Eggleston has eight state licensed group homes providing comprehensive services to abused, neglected or delinquent foster youth between the ages of 13 and 17. The eight group homes are comprised of one four-bed home and seven six-bed homes.
- Foster Family Agency/Adoption – Provides children with a stable, supportive home environment, clinical and case management services while preparing them for reunification or permanent placement.
- Day Treatment – Provides probation youth with formal instruction in a non-public school setting, daily transportation to and from school, case management, individual and group counseling and substance abuse education and treatment. In addition, this program conducts Up-Front Assessments on parents for an assessment of mental health, substance abuse and /or domestic violence concerns.
- Mental Health – Provides mental health prevention service utilizing the Triple P (Positive Parenting Program) for parents who have children from ages infants to preteen presenting with behavioral issues ranging from temper tantrums, fighting, lying, bullying, and swearing.
- Substance Education and Treatment – Outpatient services for youth ages 12 to 18 with substance abuse programs. Services include crisis intervention, assessment, individual, group and family counseling, and drug testing.

Licensure, Certification, and Accreditation

Eggleston is licensed by the State of California Department of Social Services to operate three (3) Group Homes and four (4) Foster Family Agencies. Eggleston is also certified by the Department of Alcohol and Drug Programs to operate as Drug and Alcohol Treatment Facility.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-316

**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, **Eggleston Youth Centers, Inc.** (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 **\$560,500** 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 in Pomona, CA 91767;
3. A current appraisal that is acceptable to Authority staff;
4. Corporate gross revenue pledge;
5. Loan to value ratio not to exceed 95%; and
6. 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: _____