

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant: Key Community Housing, Inc.
("Key Community Housing")
600 S. Lake Ave Suite 200
Pasadena, CA 91106
Los Angeles County

Loan #1 Amount: \$506,000
Loan #1 Term: 15-year fixed
Loan #2 Amount: \$489,000
Loan #2 Term: 15-year fixed
Authority Meeting Date: May 30, 2019
Resolution Number: HII- 320

Project Sites: Two properties located in Whittier, CA 90605 & 90603

Facility Type: Residential Facility for Persons with Developmental Disabilities

Eligibility: Government Code section 15432(d)(19)

Prior HELP II Borrower: No

Background: Key Community Housing, founded in 2007, is a non-profit public benefit corporation whose mission is to provide affordable, community-based supportive housing for individuals with special housing needs. In pursuit of this goal, Key Community Housing has acquired 11 adult residential homes and made them safe, affordable and accessible for up to 46 community members with special needs. In addition, Key Community Housing provides affordable customized property management services, including routine maintenance, long-term scheduled maintenance, property inspections, emergency maintenance plans and vendor referrals and dispatch.

Use of Loan Proceeds: Proceeds from each loan will be used to refinance the mortgages of two residential homes that, together, house nine developmentally disabled individuals who were moved out of the institutional system. The original loans have balloon payments that mature on December 1, 2019 and November 1, 2019, respectively.

Financing Structure:

- First lien on each real property located at 15041 Los Lotes Ave., Whittier, CA 90605 and at 9620 La Cima Dr., Whittier, CA 90603
- 15-year, three percent (3%) fixed rate loan for each mortgage
- Loan #1-Los Lotes: 180 equal monthly payments of approximately \$3,494 (annual payments of approximately \$41,932)
- Loan #2-La Cima: 180 equal monthly payments of approximately \$3,377 (annual payments of approximately \$40,523)
- A current appraisal for each real property that is acceptable to the Authority staff
- Corporate gross revenue pledge
- Loan to value ratio not to exceed 95% for each real property
- Verification of borrower funds to close each escrow

Financial Overview: Key Community Housing's income statement appears to exhibit fluctuating results from FY 2016 to FY 2018 but displays strong operations in the most recent fiscal year. Key Community Housing's balance sheet appears solid with a pro-forma debt service coverage ratio of 1.46x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HII Loan #1-Los Lotes	\$	506,000	Refinance-Los Lotes Bank Loan
HII Loan #2-La Cima		489,000	Refinance-La Cima Bank Loan
Borrower Funds		16,437	Financing Costs
		1,011,437	
Total Estimated Sources	\$	1,011,437	Total Estimated Uses
			\$ 1,011,437

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: Clearinghouse Community Development Financial Institution, Mdh-Specialized Care Homes 1, and Elwyn NC

Staff Recommendation: Staff recommends approval of Resolution Number HII-320 for Key Community Housing, Inc. in an amount not to exceed \$506,000 for Loan #1 and in an amount not to exceed \$489,000 for Loan #2, each loan for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. TAP International, the Authority's financial analyst, concurs with the Authority's staff recommendation.

I. PURPOSE OF FINANCING:

Key Community Housing is seeking a HELP II loan to refinance two existing loans from Clearinghouse Community Development Financial Institution (the “CCDFI-Los Lotes Bank Loan” and the “CCDFI-La Cima Bank Loan”), originally secured in the amounts of \$548,000 and \$528,000, respectively. Under the structure of these loans, balloon payments of approximately \$503,000 for the CCDFI-Los Lotes Bank Loan and approximately \$483,000 for the CCDFI-La Cima Bank Loan are due in December and November 2019, respectively. Key Community Housing management states that refinancing the two CCDFI loans will prevent Key Community Housing from having to pay these amounts in one lump sum, which would allow them to continue to provide affordable housing solutions to the nine individuals who reside there. As the purpose of this loan is to refinance the balloon payments, no substantial savings are anticipated.

***Refinance CCDFI-Los Lotes Bank Loan*..... \$506,000**

Key Community Housing will use loan proceeds to refinance the CCDFI-Los Lotes Loan. This loan was used to purchase a single family home located in Whittier, CA in May 2012. This residential facility provides affordable, community-based housing for up to five developmentally disabled adults. Currently, it is the home of five individuals who have been transitioned out of the Lanterman Developmental Center, and Key Community Housing collaborates with Eastern Los Angeles Regional Center to have community-based services provided to those individuals.

The HELP II loan will be secured by a first (1st) lien position on the property. An appraisal completed on February 18, 2019 values the property at \$1,000,000, resulting in a loan-to-value ratio of 51%.

***Refinance CCDFI-La Cima Bank Loan*..... 489,000**

Key Community Housing will use loan proceeds to refinance the CCDFI-La Cima Loan. The loan was used to purchase a single family home located in Whittier, CA in April 2012. This residential facility provides affordable, community-based housing for up to four developmentally disabled adults. Currently, it is the home of four individuals who have been transitioned out of the Lanterman Developmental Center, and Key Community Housing collaborates with Eastern Los Angeles Regional Center to have community-based services provided to those individuals.

The HELP II loan will be secured by a first (1st) lien position on the property. An appraisal completed on February 18, 2019 values the property at \$850,000, resulting in a loan-to-value ratio of 58%.

***Financing Costs*..... 16,437**

Authority Fees \$12,437
 Estimated Escrow/Title Fees 4,000

Total Uses of Funds \$1,011,437

II. FINANCIAL STATEMENTS AND ANALYSIS:

**Key Community Housing, Inc.
Statement of Activities
(Income Statement)**

	As of December 31,		
	2018	2017	2016
Support and Revenues			
Lease income	\$ 666,000	\$ 676,000	\$ 666,000
Property management revenue	159,600	156,598	102,600
Interest income	66	60	166
Other property revenues	147,416	-	-
Contributions	547	-	-
Total support and revenues	973,629	832,658	768,766
Expenses			
Salaries and wages	74,780	70,513	65,771
Payroll taxes	5,887	6,158	5,507
Payroll processing fees	3,873	3,245	3,456
Insurance	28,652	28,762	24,252
Interest	362,231	361,344	363,055
Property management fee	122,600	121,600	70,205
Real estate taxes	-	77,081	63,960
Repair and maintenance	32,526	101,418	16,161
Landscaping	525	3,675	2,035
Professional fees	7,000	6,000	6,339
Office expenses	2,766	511	365
Office lease	18,000	18,000	18,000
Telephone	1,938	1,031	983
Miscellaneous expense	52,422	2,244	4,934
Depreciation	137,262	137,262	137,262
Total expenses	850,462	938,844	782,285
Increase (decrease) in net assets	123,167	(106,186)	(13,519)
Net assets, beginning of year	3,629,687	3,735,873	3,749,392
Net assets, end of year	\$ 3,752,854	\$ 3,629,687	\$ 3,735,873

Key Community Housing, Inc.
Statements of Financial Position
(Balance Sheet)

	As of December 31,		
	2018	2017	2016
Assets			
Current assets:			
Cash and cash equivalents	\$ 129,688	\$ 95,049	\$ 60,588
Cash and cash equivalents-restricted	711,463	461,766	564,786
Accounts receivable	313	16,267	-
Total current assets	<u>841,464</u>	<u>573,082</u>	<u>625,374</u>
Property and equipment			
Land	3,739,638	3,739,638	3,739,637
Buildings	4,482,802	4,482,802	4,482,802
Building improvements	1,007,674	1,007,674	1,007,674
Furniture and equipment	7,849	7,849	7,849
Total property and equipment	<u>9,237,963</u>	<u>9,237,963</u>	<u>9,237,962</u>
Less: accumulated depreciation	(1,047,312)	(910,051)	(772,788)
Security deposit	1,410	1,410	1,410
Total assets	<u>\$ 9,033,525</u>	<u>\$ 8,902,404</u>	<u>\$ 9,091,958</u>
Liabilities and Net Assets			
Current Liabilities:			
Accounts payable	\$ 16,098	\$ 12,900	\$ 14,176
Mortgages payable - current portion	1,041,974	66,302	72,102
Security deposits	64,500	64,500	64,500
Funds held in trust	92,123	92,123	92,123
Total current liabilities	<u>1,214,695</u>	<u>235,825</u>	<u>242,901</u>
Long-term liabilities:			
Mortgages payable - net of current portion	<u>4,065,974</u>	<u>5,036,890</u>	<u>5,113,183</u>
Total liabilities	<u>5,280,669</u>	<u>5,272,715</u>	<u>5,356,084</u>
Net assets:			
Unrestricted	<u>3,752,856</u>	<u>3,629,689</u>	<u>3,735,874</u>
Total net assets	<u>3,752,856</u>	<u>3,629,689</u>	<u>3,735,874</u>
Total liabilities and net assets	<u>\$ 9,033,525</u>	<u>\$ 8,902,404</u>	<u>\$ 9,091,958</u>
	Proforma		
	FYE December 31, 2018	2018	2017
Debt Service Coverage - Net (x)	1.46	1.45	0.91
Debt to Unrestricted Net Assets (x)	1.36	1.36	1.41
Margin (%)		12.65	(12.75)
Current Ratio (x)		0.69	2.43
			2.57

Financial Discussion – Statement of Activities (Income Statement)

Key Community Housing’s income statement appears to exhibit fluctuations from FY 2016 to FY 2018, but displays strong operating results in the most recent fiscal year.

Over the period in review, revenue increased approximately 21% due mainly to an increase in property management revenue, from approximately \$103,000 in FY 2016 to approximately \$160,000 in FY 2018. According to management, this increase was due to a Board decision to move double the amount of money from each home’s reserve accounts into the operating account to offset various expenses such as salary, depreciation, insurance costs, etc. Another main source of the overall revenue increase was from the addition of approximately \$147,000 in other property revenue in FY 2018. According to Key Community Housing’s management, other property revenue came from tax reimbursements that were received in FY 2018. Management further explained that the previous Program Manager had not completed Welfare Claim Exemption forms for property tax reimbursements for 28 reimbursements in total for seven eligible Key Community Housing properties in FYs 2014-15, 2015-16, 2016-17 and 2017-18. After completing the forms in FY 2018, 27 out of 28 property tax reimbursements were received, and in future years, Key Community Housing expects to receive roughly \$63,000 from property tax reimbursements. Lease income, which is Key Community Housing’s largest source of revenue, was largely static in order to stay aligned with its mission to provide affordable housing.

Key Community Housing’s expenses have fluctuated over the period in review. One of the reasons for this fluctuation was the significant increase in property management fees from approximately \$70,000 in FY 2016 to approximately \$121,000 in FY 2017. According to Key Community Housing management, these property management fees, which are part of the increased operating expenses, contributed towards the increased property management revenue. Also, in FY 2017, according to Key Community Housing’s management, battery generators were installed on two properties, which caused a significant increase in the repair and maintenance expense for that year, but is not expected to be repeated again in the foreseeable future. This one-time expenditure is evident in the increase in repair and maintenance expense from approximately \$16,000 in FY 2016 to approximately \$101,000 in FY 2017, and then decreasing to approximately \$33,000 in FY 2018. Finally, the last significant contributor to the fluctuation over the period in review was the absence of real estate taxes in FY 2018. Due to the previously mentioned tax reimbursements, Key Community Housing had been paying real estate taxes; however, in FY 2018, the issue was rectified, resulting in the absence of real estate taxes for that year.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Key Community Housing’s balance sheet appears solid with a pro-forma debt service coverage ratio of 1.46x.

Key Community Housing has shown the ability to repay long-term debt by maintaining 11 mortgages with a debt service coverage ratio of 1.45x in FY 2018. With the proposed refinancing of the CCDFI-La Cima loan and the CCDFI-Los Lotes loan, Key Community Housing’s pro forma debt coverage service ratio improves slightly to 1.46x. Typically, this pro forma debt coverage service ratio would improve more significantly with a refinance because of savings, but since the purpose of this loan is to refinance balloon payments, no substantial savings are anticipated.

Key Community Housing’s total liabilities and net assets decreased slightly by 0.65%, from \$9.1 million to \$9.0 million from FY 2016 to FY 2018, respectively. However, this decrease was mainly due to an increase in accumulated depreciation as Key Community Housing’s primary assets are the 11 properties. Also, current assets have increased approximately 26%, from approximately \$625,000 in FY 2016 to approximately \$841,000 in FY 2018. According to management, this increase in current assets comes largely from the tax reimbursements that were received in FY 2018 as shown by the increase in restricted cash and cash equivalents.

Lastly, the current ratio, which is the ratio of current assets to current liabilities, appeared strong in FY 2016 and FY 2017 at 2.57x and 2.43x, respectively. However, in FY 2018, the current ratio decreased sharply to 0.69x, due primarily to a significant shift in the composition of the debt, from long-term debt to current debt due to the maturing of the two balloon payments. This decrease in the current ratio further supports Key Community Housing’s need for refinancing the debt.

III. UTILIZATION STATISTICS:

**Clients Served
Fiscal Year Ended December 31,**

	2018	2017	2016
Totals	46	46	46

IV. OUTSTANDING DEBT:

	Year Issued	Original Amount	Amount Outstanding As of December 31, 2018^a	Estimated Amount Outstanding after Proposed Financing
<i>-EXISTING LONG-TERM DEBT:</i>				
Clearing House CDFI-Stranahan Eastern Los Angeles Regional Center-Stranahan	2008	\$360,000	\$322,922	\$322,922
Clearing House CDFI-Brookline	2008	353,402	353,402	353,402
Clearing House CDFI-Barnwall	2009	437,500	392,734	392,734
Clearing House CDFI-Vista	2009	367,200	334,309	334,309
Clearing House CDFI-Halifax	2009	462,000	415,448	415,448
Clearing House CDFI-Larrylyn	2010	488,000	457,439	457,439
Clearing House CDFI-De Sales	2010	336,000	316,815	316,815
Clearing House CDFI-Doreen	2011	510,000	472,262	472,262
Clearing House CDFI-Janine	2011	638,400	591,157	591,157
Clearing House CDFI-La Cima	2012	496,000	465,839	465,839
Clearing House CDFI-Los Lotes	2012	528,000	484,018	-
		548,000	501,604	-
<i>-PROPOSED NEW DEBT</i>				
<i>HELP II Loan #1-Los Lotes</i>				506,000
<i>HELP II Loan #2-La Cima</i>				489,000
<i>-TOTAL DEBT</i>			\$5,107,949	\$5,117,327

^a Includes current portion of long-term debt.

V. BACKGROUND AND LICENSURE:

Background

Key Community Housing, Inc., founded in 2007, is a nonprofit organization whose mission is to provide affordable, community-based supportive housing for individuals with special housing needs. Key Community Housing pursues its mission by creating collaborative partnerships that allows them to diligently respond to the housing crisis in Southern California for low income individuals with developmental or other disabilities.

One of Key Community Housing's core programs is the current development of community-based housing for people with developmental disabilities who are transitioning out of the Lanterman Developmental Center. In this program, Key Community Housing works in collaboration with the Eastern Los Angeles Regional Center, a non-profit corporation that provides community-based services to people with developmental disabilities. In addition to supportive housing development, Key Community Housing provides affordable customized property management services, which includes routine maintenance, long-term scheduled maintenance, property inspections, emergency maintenance plans, and vendor referrals and dispatch. In total, Key Community Housing oversees 11 adult residential homes that are safe, affordable and accessible for up to 46 community members with special needs.

Licensure, Certification and Accreditation

As a housing provider, Key Community Housing's properties are not licensed directly. Mdh-Specialized Care Homes 1 and Elwyn NC will be the service providers at the La Cima and Los Lotes facilities, respectively and are licensed by the California Department of Social Services to provide developmental disability services.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-320

**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, **Key Community Housing, Inc.** (the “Borrower”), a California participating health institution, has applied to the Authority for two loans through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the two loans 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 two loans to the Borrower, one in an amount not to exceed **\$506,000** for a term not to exceed **15 years** and one in an amount not to exceed **\$489,000** for a term not to exceed **15 years**, each for the purposes described in the application filed with the Authority (the “Projects”), 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. 15-year, three percent (3%) fixed rate loan for each real property;
2. First lien position on each real property located at 15041 Los Lotes Ave., Whittier, CA 90605 and at 9620 La Cima Dr., Whittier, CA 90603;
3. A current appraisal for each real property that is acceptable to Authority staff;
4. Corporate gross revenue pledge;
5. Loan to value ratio not to exceed 95% for each real property; and
6. Verification of Borrower’s funds to close each 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 loans, 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: _____