

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Hart Community Homes, Inc. ("Hart Homes") 208 N. Lemon Street Fullerton, CA 92832 Orange County</p> <p>Project Site: 220 N. Lemon Street, #A, B, C, and D, Fullerton, CA 92832</p> <p>Facility Type: Group Home</p> <p>Eligibility: Government Code section 15432(d)(14)</p> <p>Prior HELP II Borrower: Yes (December 2001 – paid off as of June 2016)</p>	<p>Amount Requested: \$1,330,000</p> <p>Requested Loan Term: 20-year fixed</p> <p>Annual Interest Rate: 2%</p> <p>Authority Meeting Date: September 26, 2019</p> <p>Resolution Number: HII-321</p>																
<p>Background: Founded in 1996, Hart Homes is a not-for-profit group home located in Orange County. Hart Homes' mission is to heal, educate, and empower at-risk youth and young adults to become healthy, productive, and self-sufficient adults in the community. Hart Homes operates two licensed group homes for boys, ages 13 to 18, in foster care. In addition to the group home services that Hart Homes offers, it also runs a for-profit fully operational restaurant, the Monkey Business Café, to help establish stability and work experience for its participants.</p>																	
<p>Use of Loan Proceeds: Loan proceeds will be used to purchase an existing apartment complex located at 220 N. Lemon Street, Fullerton, CA 92832. As an additional group home under Hart Homes' not-for-profit organization, the purchase of the facility is expected to add eight bedrooms to be used as shelter for at-risk young adults. No loan proceeds will be used to directly finance aspects of Hart Homes' for-profit enterprise, the Monkey Business Café.</p>																	
<p>Financing Structure:</p> <ul style="list-style-type: none"> • 20-year, two percent (2%) fixed rate loan • 240 equal monthly payments of approximately \$6,728 (annual payments of approximately \$80,736) • First lien on real property located at 220 N. Lemon Street, #A, B, C, and D, Fullerton, CA 92832 • A current appraisal that exhibits a loan to value ratio not to exceed 95% (estimated loan-to-value ratio is approximately 95%) • Corporate gross revenue pledge • Verification of borrower funds to close escrow 																	
<p>Financial Overview: Hart Homes' income statement appears to display positive operating results with improving unrestricted net assets in each year. Hart Homes' balance sheet appears to display growing net assets over the review period and exhibits a FY 2018 pro-forma debt service coverage ratio of 2.54x.</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources:</u></th> <th colspan="2" style="text-align: left;"><u>Estimated Uses:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">HELP II Loan</td> <td style="width: 20%; text-align: right;">\$1,330,000</td> <td style="width: 30%;">Purchase real property</td> <td style="width: 20%; text-align: right;">\$1,400,000</td> </tr> <tr> <td>Borrower funds</td> <td style="text-align: right;">88,625</td> <td>Financing costs</td> <td style="text-align: right;">18,625</td> </tr> <tr> <td>Total Estimated Sources</td> <td style="text-align: right;"><u>\$1,418,625</u></td> <td>Total Estimated Uses</td> <td style="text-align: right;"><u>\$1,418,625</u></td> </tr> </tbody> </table>		<u>Estimated Sources:</u>		<u>Estimated Uses:</u>		HELP II Loan	\$1,330,000	Purchase real property	\$1,400,000	Borrower funds	88,625	Financing costs	18,625	Total Estimated Sources	<u>\$1,418,625</u>	Total Estimated Uses	<u>\$1,418,625</u>
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<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Affiliation Due Diligence documentation, and the Community Service Obligation certification. All documentation satisfies the Authority's requirements.</p>																	
<p>Parties of Interest: Chicago Title Company</p>																	
<p>Staff Recommendation: Staff recommends approval of Resolution Number HII-321 for Hart Community Homes, Inc. in an amount not to exceed \$1,330,000 for a term not to exceed 20 years, and contingent upon financing terms acceptable to the Authority. TAP International, Inc., the Authority's financial analyst, concurs with the Authority's staff recommendation.</p>																	

I. PURPOSE OF FINANCING:

Hart Homes is requesting a HELP II loan (the “2019 Loan”) to finance the purchase of an apartment complex to expand the scope of its housing services. Currently, Hart Homes has two properties that provide residential group home programming for young boys, ages 13 to 18. According to Hart Homes’ management, there is a large need for transitional housing for emancipated foster youth and young adults. Hart Homes’ management explains that it has an opportunity to expand its ability to provide additional transitional housing to vulnerable young adults, ages 18 to 24, and has been encouraged by the Orange County Department of Social Services to address this significant community need with the purchase of the proposed new apartment complex. With the help of the 2019 Loan financing, Hart Homes’ management explains that emancipated at-risk young adults will be able to find shelter at the prospective facility.

***Purchase Real Property*..... \$1,400,000**

Hart Homes plans to use loan proceeds to purchase a 4,568 square foot, four-unit apartment building. Besides requiring new carpet and paint, the additional space is move-in ready and will be used to expand existing programs to include transitional housing for foster care young adults. Hart Homes’ management expects that the new units will add approximately eight bedrooms for existing and new participants. Additionally, the new property is adjacent to the organization’s restaurant, which Hart Homes owns and uses as part of its program to provide on-the-job training and work experience. Hart Homes plans on adding various support services, such as mental health counseling and additional employment opportunities to assist residents of the new property as they transition to independence and self-sufficiency. In addition to the 2019 Loan, Hart Homes will contribute approximately \$88,000 of its own funAds to assist in purchasing the property.

The 2019 Loan will be secured by a first (1st) lien position on the property located at 220 N. Lemon Street, #A, B, C, and D, Fullerton, CA 92832. In addition, an appraisal acceptable to the Authority will be completed prior to closing, reflecting a loan-to-value ratio of less than 95%.

***Financing Costs* 18,625**

Authority fees \$16,625
Other closing costs 2,000

***Total Estimated Uses of Funds* \$1,418,625**

II. FINANCIAL STATEMENTS AND ANALYSIS:

Hart Community Homes, Inc.
Statement of Activities
(Unrestricted)

	As of June 30,		
	2018	2017	2016
SUPPORT AND REVENUE			
Group home grant ^(a)	\$ 1,336,713	\$ 1,256,332	\$ 1,156,988
Nutrition grant	16,314	13,770	18,768
Group home contributions	240,964	136,970	-
Group home other	10,940	-	-
Monkey Business Café sales	717,385	869,953	822,181
Monkey Business Café contributions	22,791	198,070	238,624
Monkey Business Café grant revenue	-	3,108	18,750
Monkey Business Café income tax benefit	59,935	-	-
Monkey Business Café other	41,811	2	8,758
In-kind rent	9,686	-	-
Net assets released from restrictions:			
Acquisition of equipment and improvements	196,155	170,404	18,330
USDA grant	190,432	-	-
Operating projects	108,971	163,755	59,455
Total Support and Revenue	\$ 2,952,097	\$ 2,812,364	\$ 2,341,854
EXPENSES			
Payroll	1,542,744	1,252,271	1,050,681
Payroll taxes and fringe benefits	263,657	264,598	246,739
Child related	120,368	153,775	114,464
Groceries	280,134	384,618	317,651
Auto and travel	44,378	30,815	39,511
Bank fees	24,346	27,769	26,481
Insurance	29,376	33,611	26,591
Interest	38,917	19,759	23,542
Maintenance	60,869	82,955	64,101
Office	19,749	32,743	24,420
Professional services	59,217	50,927	108,886
Rent	43,690	42,260	24,391
Supplies	4,997	61,784	42,663
Taxes	3,038	2,729	-
Telephone	21,106	23,455	20,290
Utilities	55,901	64,104	70,660
Other	35,404	31,761	31,160
Depreciation	85,379	75,012	45,721
Period adjustment ^(b)	-	1,137	-
Total Expenses	\$ 2,733,270	\$ 2,636,083	\$ 2,277,952
CHANGE IN NET ASSETS	218,827	176,281	63,902
Prior period adjustment	43,852	-	-
Net Assets, Beginning of Year	107,422	(112,711)	(176,613)
Net Assets, End of Year	\$ 326,249	\$ 63,570	\$ (112,711)

^(a) Only this line item is considered for the accompanying table on the following page.

^(b) This line item was recommended to be added by the Authority's financial analyst to reconcile the audit's statement of activities and functional expenses.

Group Home Grant Revenue^(a) for FYE June 30,

Payor Source

	<u>2018</u>	<u>2017</u>
Orange County Department of Social Services	55%	42%
San Bernardino County Department of Social Services	45%	58%
Total	100%	100%

^(a)Only Group home grant revenue from the statement of activities is considered in this table's sources.

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Hart Community Homes, Inc.
Statement of Financial Position
(Unrestricted)

		As of June 30,		
		2018	2017	2016
ASSETS				
Current Assets				
Cash and cash equivalents		\$ 112,720	\$ 141,456	\$ 192,539
Accounts receivable		119,096	126,428	106,860
Prepaid expenses and other assets		-	18,482	8,406
Total Current Assets		231,816	286,366	307,805
LAND, BUILDINGS, AND EQUIPMENT				
Land, buildings, and equipment, net of accumulated depreciation		596,438	501,227	405,836
OTHER ASSETS				
Cash restricted for equipment and improvements		-	196,155	146,908
Cash restricted for workforce		-	213,411	-
Cash restricted for USDA and other		108,553	-	-
Deferred tax asset		59,935	-	-
Deposits		2,808	-	-
Total Other Assets		171,296	409,566	146,908
Total Assets		\$ 999,550	\$ 1,197,159	\$ 860,549
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable		\$ 52,559	\$ 77,669	\$ 47,035
Accrued expenses		3,052	26,481	24,649
Current portion of long term debt		8,764	20,826	67,124
Total Current Liabilities		64,375	124,976	138,808
Line of credit		67,273	-	-
Related party loan		46,475	-	-
Notes payable		385,622	487,576	481,999
Total Long Term Liabilities		499,370	487,576	481,999
Total Liabilities		563,745	612,552	620,807
NET ASSETS				
Unrestricted		326,249	64,493 ^(a)	(112,711)
Without donor restrictions/Temporarily restricted		109,556	520,114	352,453
Total Net Assets		435,805	584,607	239,742
Total Liabilities and Net Assets		\$ 999,550	\$ 1,197,159	\$ 860,549
		Proforma ^(b)		
		FYE June 30, 2018	2018	2017
Debt Service Coverage - Net Income (x)	2.54	5.74	3.12	1.14
Debt to Unrestricted Net Assets (x)	5.63	1.56	7.88	(4.87)
Margin (%)		7.41	6.27	2.73
Current Ratio (x)		3.60	2.29	2.22

^(a) This number slightly differs from the number on the statement of activities, but is corrected by note (a) on the income statement.

^(b) Recalculates FY 2018 audited results to include the impact of this proposed financing and includes the proposed loan of \$1,330,000.

Hart Homes' income statement appears to display positive operating results with improving unrestricted net assets in each year.

Hart Homes' total revenues increased over the review period, growing from approximately \$2.3 million in FY 2016 to nearly \$3 million in FY 2018, an increase of 26.3%. A large portion of revenue growth appears to be attributed to the addition of group home contributions, adding nearly \$241,000 in revenue in FY 2018. Hart Homes' management explains that this addition in revenue was obtained as a result of a rate increase from the Orange County Department of Social Services per individual client in each calendar year from 2016 to 2018, as well as a total occupancy increase due to higher demand for shelter services. Hart Homes also expanded its services to include psychiatric and rehabilitation services and anticipates acquiring a mental health contract in the coming year, which will further increase revenues received per client. The acquisition of the proposed apartment complex is also projected to add approximately \$373,000 in new revenues. Additionally, Hart Homes' management anticipates that revenues will be increasing at a higher rate in upcoming years, since Monkey Business Café sales are expected to be considerably higher, as sales were affected by the restaurant being closed for two months during FY 2018 for renovations.

Total expenses increased by 20% from FY 2016 to FY 2018, from nearly \$2.3 million to approximately \$2.7 million, respectively. Much of the increase appears to be attributed to payroll increasing by 46.8%, from approximately \$1.1 million in FY 2016 to just over \$1.5 million in FY 2018. Hart Homes' management partially attributes this increase to raising its minimum wage for employees at the Monkey Business Café. In addition, Hart Homes hired a full time Clinical Director at the end of 2016 and enhanced its youth workforce development program by providing comprehensive training, which in turn increased its payroll costs. Although expenses increased, total revenue growth outpaced the growth of expenses, as reflected by growing operating margins. Overall, operating margins grew from 2.7% in FY 2016 to 7.4% in FY 2018, indicating a consistent ability to generate net operating surplus.

Hart Homes' balance sheet appears to display growing net assets over the review period and exhibits a FY 2018 pro-forma debt service coverage ratio of 2.54x.

Hart Homes' posted improving debt service coverage ratios over the review period. Beginning at 1.14x in FY 2016, it improved to 3.12x in FY 2017, and improved further to 5.74x in FY 2018. Considering the proposed 2019 Loan, the pro-forma debt service coverage ratio drops to a solid 2.54x, indicating the likelihood that Hart Homes can manage the additional debt.

In FY 2016, Hart Homes posted negative unrestricted net assets, causing its debt to unrestricted net assets ratio to be (4.87x). In FY 2018, the debt to unrestricted net assets ratio experienced a significant improvement, increasing to 1.56x, as unrestricted net assets increased from approximately \$64,000 to just over \$326,000. Although highly leveraged at a pro-forma debt to unrestricted net assets ratio of 5.63x, Hart Homes' management explains that it is confident it can support the new proposed debt due to the expectation that the new real estate asset should provide an exchange transaction to Orange County, meaning that services will be billed to counties as obligations are met, therefore increasing revenue. Hart Homes' management further explains that it is in contact with the Orange County Department of Social Services to provide additional transitional housing, so it is expected that new contracted billing may be a new revenue source to assist with the proposed monthly HELP II loan payments.

Cash and cash equivalents decreased over the review period, decreasing from approximately \$193,000 in FY 2016 to just under \$113,000 in FY 2018. Hart Homes' management explains that the decrease in cash and cash equivalents is related to USDA grants that were received at the beginning of the program in a large lump sum amount. Hart Homes' management goes on to explain that there is an ongoing gradual drawing down of grant funds, as exchange transaction services are realized and expensed. Despite cash and cash equivalents decreasing, Hart Homes' current ratio improved, due to current liabilities decreasing. Its current ratio improved from 2.22x in FY 2016 to 3.60x in FY 2018, which appears to indicate a healthy ability to provide short-term liquidity.

III. UTILIZATION STATISTICS

**Clients Served
for Fiscal Year End June 30,**

	2018	2017	2016
Totals	25	30	33

IV. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding as of June 30, 2019^(a)</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT:</i>			
First Foundation Bank Loan (2017)	\$ 400,000	\$ 389,325	\$ 389,325
First Bank Line of Credit (2006)	99,000	31,425	31,425
First Foundation Bank Line of Credit (2018)	80,000	67,273	67,273
Related Party Loan (2018) ^(b)	46,475	46,475	46,475
<i>- PROPOSED NEW DEBT:</i>			
CHFFA HELP II Loan (2019)			1,330,000
<i>- TOTAL DEBT</i>		<u>\$ 534,498</u>	<u>\$ 1,864,498</u>

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

^(b) This loan is from the President of the Board of Directors, Bill Hart. The entirety of the amount outstanding on the loan is expected to be forgiven at the end of CY2019.

V. BACKGROUND AND LICENSURE

Background

Founded in 1996, Hart Homes is a not-for-profit group home located in Orange County. Hart Homes' mission is to heal, educate, and empower at-risk youth to become healthy, productive, and self-sufficient adults in the community. Hart Homes operates two licensed group homes for boys, ages 13 to 18, in foster care. Youth are referred by the Counties of Orange, San Bernardino, Riverside, and Los Angeles. By the time youth arrive at Hart Homes, many have experienced multiple foster care placements and the accompanying physical and emotional scars resulting from child abuse, abandonment, and separation from family. Each home currently supports six youth boys, providing housing, academic support, recreation, behavioral health, and emancipation services. Hart Homes continues to provide services and support until its youth are emancipated successfully into the community. As a growing company, Hart Homes continues to improve on its internal control processes as well as sharpen its management expertise. The company employs approximately 15 full-time employees and 35 part-time employees.

Unique to Hart Homes is its for-profit workforce program, Monkey Business Café, where working-age residents can immediately earn a wage, gain work experience, and develop a career path. Monkey Business Café was launched in 2005 to help combat the consequences of inadequate training and support, in which studies have shown to increase conditions of incarceration, homelessness, poverty, and unemployment. Monkey Business Café is a fully operational restaurant and catering enterprise that offers paid on-the-job training that assists in establishing a participant's work history. Participants are mentored in various aspects of restaurant operations, while developing a plan for their post-secondary education, housing, vocational pathway, and financial stability.

Licensure, Certification, and Accreditation

Hart Homes is licensed by the State of California Department of Social Services to operate and maintain a group home.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-321

**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, **Hart Community Homes, 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 **\$1,330,000** 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 220 N. Lemon Street, #A, B, C, and D, Fullerton, CA 92832;
3. A current appraisal that is acceptable to Authority staff exhibiting a loan to value ratio not to exceed 95%;
4. Corporate gross revenue pledge;
5. 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: _____