CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
STAFF SUMMARY AND RECOMMENDATION

HELP II Loan Program

Progress House, Inc.

Second Amendment to Resolution Number HII-209

January 30, 2020

PURPOSE OF REQUEST:

Progress House, Inc. ("PH") is requesting a loan modification to the repayment terms of its HELP II loan to assist PH in recovering from its financial hardship. The loan modification would include interest-only payments for one year beginning February 1, 2020 through January 31, 2021. In addition, the term of the loan would be extended by one year with a new maturity date of March 1, 2025. If approved, the monthly payments would be reduced from $3,869.33 in principal and interest to $445.59 in interest-only for a cash flow savings of $3,424 per month, $41,085 per year.

BACKGROUND AND ANALYSIS:

PH is a non-profit health facility that provides treatment for alcohol and drug addictions by offering outpatient treatment for all populations and residential treatment and transitional living for men, women, pregnant women, and women with children. PH serves 28 counties, 24 of which are located in rural Northern California, with 12 locations.

At its December 6, 2007 meeting, the Authority approved Resolution No. HII-209 to provide a HELP II loan for PH in the amount of $560,300 to refinance three high interest rate loans and to renovate one of its residential facilities. As of December 2019, the loan balance is approximately $185,000, and PH has been current on its loan payments through January 1, 2020. The HELP II loan is secured by a first lien on the property located in Coloma, California. According to PH's management, the estimated current market value of the property is approximately $610,000, which leads to an approximate loan to value ratio of 30%.

In October 2010, the Authority approved Resolution No. HII-260, which subordinated the Authority's first lien position of the gross revenue pledge. This subordination was done in order for PH to open a line of credit with American River Bank. The State was delayed in enacting the FY 2010/2011 budget, which, in turn, delayed Medi-Cal reimbursement payments from the Department of Health Care Services by several months. PH opened the line of credit to bridge the funding gap resulting from the extended Medi-Cal reimbursement period.

In August 2014, the Authority approved an amendment to HII-209 allowing for an interest-only loan modification to the repayment terms of PH's HELP II loan for one year. The loan modification assisted PH in recovering from a financial hardship that included management issues that resulted in appointment of a new Executive Director, outstanding federal and state payroll taxes, and the loss of a $900,000 contract. According to PH’s management, in March 2014, the new Executive Director implemented a strategic business plan to address the organization’s deficiencies, which, along with the HELP II loan modification, has been successful. However, in FY 2019, several events took place that have, according to PH’s management, decreased cash flow suddenly.

WestCare Contract:

WestCare is a nonprofit organization that manages parolees who receive early release and qualify for Substance Use Disorder treatment. For many years, WestCare provided referrals to PH, but, in January 2019, WestCare progressively decreased the number of referrals sent to PH. When PH reached out to WestCare about the decreasing number of referrals, WestCare responded that it was an internal budgeting issue but provided no other details. As a result, in FY 2019, PH received $32,200 for its services rather than the expected $280,360. Due to a lack of timely communication, PH was only able to move six of the ten staff members to other facilities, and accommodated the loss by laying off the other four employees and temporarily closing its Detox Center in El Dorado County.

Drug Medi-Cal Organized Delivery System Contracts:

Another impact to the cash flow was due to increased staffing and training to meet the demands of the new Drug Medi-Cal Organized Delivery System (DMC ODS), which emphasizes greater patient care through more specialized and individualized sessions with staff. Initially, both PH and the counties PH contracts with, including El Dorado County, Yolo County and Placer County, underestimated the cost of the work required for this new statewide program and therefore, underestimated the reimbursement rates. PH was able to negotiate a higher contracted reimbursement rate with Yolo and Placer Counties of $100 and $105 per client, respectively. However, PH’s contracted reimbursement rate with El Dorado County of $80 per client prior to implementation of the DMC ODS program remained the same after implementation of the program. PH continues to operate under the existing contract, which expires June 30, 2020, but is working with El Dorado County to finalize a new contract before then.

Cost Settlements Owed to El Dorado County:

Lastly, during negotiations with El Dorado County (the “County”), PH asked for a retroactive contract, which would reimburse PH for the costs that were not accounted for in the rates given in the first DMC ODS contract in June 2019. During the negotiation process, the County discovered that PH owed prior years of cost settlements, which are non-reimbursable expenses that were paid out to PH totaling $189,000. However, according to PH’s management, it appeared that some of the amount the County claimed it overpaid was due to denied claims, thus, PH appealed the amount of the cost settlement. As a result, on December 11, 2019 the County notified PH of a reduced amount of approximately $140,000 to be repaid by January 25, 2020 for the non-reimbursable expenses that were paid out to PH from FY 2016 to FY 2018.

FINANCIAL ANALYSIS:

Progress House Inc.
Statement of Activites
(Income Statement)

	As of June 30,		
	2019	**2018**	**2017**
Public support and revenues			
Grants and awards	$ 1,978,888	$ 2,304,730	$ 2,228,219
Program income	99,231	188,562	230,440
Rent income	44,440	31,844	19,326
Fundraising (net)	160	5,074	4,007
Miscellaneous income	6,782	-	-
Total revenues, gain and support	2,129,501	2,530,210	2,481,992
Expenses			
Salaries and wages	1,208,532	1,216,153	1,256,793
Payroll taxes	120,496	131,938	134,424
Employees' beneits	161,330	235,855	205,247
Professional services	52,347	68,046	86,325
Advertising	1,907	420	-
Bank charges	3,112	4,369	3,791
Repairs and maintenance	34,102	54,181	44,286
Depreciation/amortization	65,370	92,107	61,164
Food expense	36,588	43,179	48,550
Supplies and FF&E	23,166	32,713	24,853
Equipment lease and service	38,013	22,125	21,286
Insurance	53,263	53,476	51,165
Interest expense	68,664	71,450	73,925
Dues, taxes and licenses	20,239	38,294	19,211
Office expense	16,069	9,978	10,013
Program expense	887	6,922	960
Occupancy	87,124	121,801	122,777
Recruitment and retention	725	715	434
Communications	57,887	54,352	52,128
Training	-	1,650	5,119
Travel/mileage	30,117	26,932	27,592
Drug screening tests	55,289	67,754	64,917
Utilities	126,704	134,943	120,878
Intern expense	-	7,400	100
Miscellaneous	279	326	534
Total Expenses	2,262,210	2,497,079	2,436,472
Excess of revenue over expenses	(132,709)	33,131	45,520
Other non-operating income (expense)	16,370	(3,177)	15,435
Change in Net Assets	(116,339)	29,954	60,955
Net Assets, Beginning of Year	1,085,621	1,055,667	994,712
Net Assetss, End of Year	$ 969,282	$ 1,085,621	$ 1,055,667

Progress House Inc.
Statements of Financial Position
(Balance Sheet)

	As of June 30,		
	2019	**2018**	**2017**
Assets			
Current assets			
Cash and cash equivalents	$ 134,341	$ 316,259	$ 197,370
Grants and accounts receivable	279,763	222,837	314,982
Prepaid expenses	11,938	32,357	24,230
Other current assets	2,045	1,192	1,631
Total current assets	428,087	572,645	538,213
Noncurrent assets			
Property and equipment, net of accumulated depreciation	1,892,351	1,946,245	2,036,300
Deposits	3,050	3,050	10,050
Total noncurrent assets	1,895,401	1,949,295	2,046,350
Total Assets	$ 2,323,488	$ 2,521,940	$ 2,584,563
Liabilities and Net Assets			
Current liabilities			
Accounts payable	$ 1,779	$ 15,996	$ 33,893
Accrued expenses	32,644	32,580	43,496
Other current liabilities	6,850	4,880	1,500
Current portion of long-term debt	72,846	69,931	67,144
Total current liabilities	114,119	123,387	146,033
Long-term liabilities, net of current portion	1,240,086	1,312,932	1,382,863
Total Liabilities	1,354,205	1,436,319	1,528,896
Net Assets			
Unrestricted	-	-	1,055,667
Without donor restrictions	969,283	1,085,621	-
Total net assets	969,283	1,085,621	1,055,667
Total libilities and net assets	$ 2,323,488	$ 2,521,940	$ 2,584,563

	2019	**2018**	**2017**
Debt Service Coverage - Operating	0.01	1.42	1.25
Debt to Unrestricted Net Assets (x)	1.35	1.27	1.37
Margin (%)	-6.23	1.31	1.83
Current Ratio (x)	3.75	4.64	3.69

Financial Discussion – Income Statement

PH's income from operations appears to decrease over the period in review, ending with a net loss of approximately $133,000 in FY 2019. Although expenses appear to decrease from approximately $2.5 million in FY 2018 to $2.3 million in FY 2019, revenue seems to have a larger decrease from $2.5 million in FY 2018 to $2.1 million in FY 2019. This decrease in revenue appears to be primarily due to a decrease in grants and awards as well as a decrease in program income. According to PH's management, the decrease in the grants and awards and the program income stems from the loss of the WestCare contract as well as a decrease in occupancy, which was due to the DMC ODS changes in services and reporting. The overall decrease in expenses, according to PH's management, was intentionally controlled to manage cash flow.

Financial Discussion – Balance Sheet

PH's balance sheet seems to exhibit fluctuating financial stability ending with a debt service coverage ratio of 0.01x in FY 2019. Total net assets without donor restrictions appears to decrease to approximately $969,000 in FY 2019 from $1.1 million in FY 2018. PH also appears highly leveraged with a debt to unrestricted net assets ratio of 1.35x in FY 2019, which indicates PH relies heavily on credit. Furthermore, in FY 2019, cash and cash equivalents decreased from approximately $316,000 in FY 2018 to approximately $134,000 in FY 2019. According to PH's management, this decrease is primarily due to the extended time period of low occupancy in the DMC ODS program in FY 2019, which decreased incoming cash flows.

To alleviate financial issues and work towards financial stability, PH's management has provided a copy of its strategic business plan to the Authority staff, a summary of which is provided on the following page.

The strategic business plan is summarized as follows:

1. Rural Community Assistance Corporation (RCAC) Loans

   In October 2019, PH re-negotiated its loans with RCAC. The two RCAC loans will be re-amortized and the interest rates were reduced to 5.0% from 5.5%. According to PH management, this interest rate reduction will result in an estimated savings of approximately $3,646 per year.

2. Rural Community Assistance Corporation Line of Credit

   In October 2019, PH was approved for a five-year line of credit for $100,000 at 5.75% interest rate, which will help with cash flow issues.

3. River City Bank Line of Credit

   In December 2019, PH was approved for a line of credit for $100,000 at 7.85% interest rate, which will help with cash flow issues.

4. Refinancing Property

   PH has reached out to another bank to refinance one of its properties in order to use the equity from that property to help with cash flow.

5. Negotiate Repayment Plan with El Dorado County

   PH is in discussion with El Dorado County to negotiate a repayment plan with a longer time frame than the current 45 days for the approximately $140,000 owed.

6. Applications for Grants

   PH is applying for various grants to provide additional funding for large ticket items such as generators, septic system upgrade, and other repairs.

   - Received a $10,000 grant for participating in a Tobacco Cessation survey.
   - Applied for a $11,880 grant with Marshall Foundation, a nonprofit that supports the needs of health facilities in El Dorado County.
   - Applying for a $36,000 Tobacco Cessation grant by turning its Men's Residential facility into a non-smoking facility. Payment of grant is $2,000 per month over 18 months.

7. Negotiate New Contract with El Dorado County

   PH is currently in the process of negotiating the terms of a new DMC ODS contract with El Dorado County. As a reference, the following are Yolo County's and Placer County's current reimbursement rates with PH as compared to El Dorado County.

   - El Dorado County: $80 per client
   - Yolo County: $100 per client
   - Placer County: $105 per client

8. Negotiate New Contracts with Placer County and Yolo County
    - PH will begin negotiations with Placer County in March 2020
    - PH will begin negotiations with Yolo County no later than July 2020
9. Seek out other funding streams, such as private insurance, new referral contracts, and collaborate with Yolo County on the Community Services Infrastructure Grant Award with the California Health Facilities Financing Authority.

STAFF RECOMMENDATION:

Staff recommends the Authority approve a Second Amendment to Resolution No. HII-209 for Progress House, Inc. to allow a loan modification, which would: (1) include interest-only payments for one year beginning February 1, 2020 through January 1, 2021 and (2) extend the term of the loan one year, with a new maturity date of March, 1, 2025.

This recommendation is predicated upon the below conditions being met by PH:

1. PH must provide the Authority with unaudited quarterly financials, a brief summary of its financial condition, and its progress towards its strategic business plan for the duration of the loan modification.
2. PH must provide the Authority with a copy of the new executed contracts between PH and El Dorado, Yolo, and Placer Counties.
3. PH must provide the Authority with a projected budget of revenue and expenses for each of the next three fiscal years within three months of the approval of this resolution.
4. PH must provide the Authority with the final repayment terms for the approximate $140,000 in non-reimbursable expenses that El Dorado County paid out to PH from FY 2016 to FY 2018.
5. PH must execute documents for loan modifications, including amendments to the loan and security agreement and promissory note, as required by the Authority.
6. Failure to comply with any of the above conditions shall cause the interest-only payment modification of the loan to be revoked, and the loan shall be re-amortized to the previous maturity date of March 1, 2024 with a balloon payment due at maturity.

TAP International, the Authority's financial analyst, concurs with the Authority's staff recommendation.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Second Amendment to Resolution Number HII-209

APPROVAL OF CERTAIN MODIFICATIONS FOR
PROGRESS HOUSE, INC.
HELP II LOAN TERMS

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 finance or refinance 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, on December 6, 2007, Progress House, Inc., (the "Borrower"), a California nonprofit corporation and participating health institution, was approved for a Program loan in the amount of $560,300, of which approximately $185,000 remains outstanding (Resolution No. HII-209);

WHEREAS, on October 28, 2010, the Authority approved subordination of the Authority's gross revenue pledge for the Borrower's Program loan (Resolution No. HII-260);

WHEREAS, on August 28, 2014, the Authority approved an Amendment to Resolution No. HII-209 to modify the loan to allow for one (1) year of interest-only payments and extend the maturity of the loan by one (1) year to March 1, 2024;

WHEREAS, Borrower now requests modifications to the repayment terms of its Program loan to assist the Borrower to recover from its financial hardship, and the Authority staff recommends the Second Amendment to Resolution No. HII-209 as hereinafter set forth; and

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

<u>Section 1</u>. The Authority approves the modifications of the Borrower's Program loan to allow the Borrower to pay interest-only payments for one (1) year, beginning the month of February 2020 through January 2021. Accordingly, the term of the Program loan shall be extended by one (1) year with a new maturity date of March 1, 2025. This approval is subject to the following conditions:

1. PH must provide the Authority with unaudited quarterly financials, a brief summary of its financial condition, and its progress towards its strategic business plan for the duration of the loan modification.

2. PH must provide the Authority with a copy of the new executed contracts between PH and El Dorado, Yolo, and Placer Counties.
3. PH must provide the Authority with a projected budget of revenue and expenses for each of the next three fiscal years within three months of the approval of this resolution.
4. PH must provide the Authority with the final repayment terms for the approximate $140,000 in non-reimbursable expenses that El Dorado County paid out to PH from FY 2016 to FY 2018.
5. PH must execute documents for loan modifications, including amendments to the loan and security agreement and promissory note, as required by the Authority.
6. Failure to comply with any of the above conditions shall cause the interest only payment modification of the loan to be revoked, and the loan shall be re-amortized to the previous maturity date of March 1, 2024 with a balloon payment due at maturity.

Section 2. This Second Amendment to Resolution No. HII-209 expires January 31, 2021.

Date Approved: ______________________