

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

| <p>Applicant: Gateway Center of Monterey County, Inc. (Gateway Center) 850 Congress Avenue Pacific Grove, CA 93950 Monterey County</p> | <p>Loan Amount: \$400,000 Loan Term: 7 years Annual Interest Rate: 3% Authority Meeting Date: January 28, 2021 Resolution Number: HII-329</p> | | | | | | | | | | | | | | | | |
|---|--|------------------------------------|-------------------|---------------------------------|--|--------------|------------|-----------|------------|----------------|-------|-----------------|-------|--------------------------------|-------------------|-----------------------------|-------------------|
| <p>Project Site: 850 Congress Avenue, Pacific Grove, CA 93950 Facility Type: Intermediate Care Facility/Developmentally Disabled Habilitative Eligibility: Government Code Section 15432(d)(11) Prior HELP II Borrower: No</p> | | | | | | | | | | | | | | | | | |
| <p>Background: Gateway Center is a 501(c)(3) corporation that began in 1954 with a group of parents who wanted to offer their special needs infants and children a place to grow and thrive. Their intent was to enhance the quality of their children’s lives while ensuring safety and promoting learning and independence. In 1975, Gateway Center established an innovative new program that provided day and residential services to 46 developmentally disabled adults. Today, Gateway Center serves over 60 adults with developmental disabilities in both day and residential programs.</p> | | | | | | | | | | | | | | | | | |
| <p>Use of Loan Proceeds: Loan proceeds will be used to refinance a loan with Bank of America, which has a balloon payment that is due in December 2025.</p> | | | | | | | | | | | | | | | | | |
| <p>Financing Structure:</p> <ul style="list-style-type: none"> • 7-year, three percent (3%) fixed rate loan • 84 equal monthly payments of approximately \$5,285 (annual payments of approximately \$63,424) • First lien on the real property located at 850 Congress Avenue, Pacific Grove, CA 93950 • A current appraisal that exhibits a loan-to-value ratio not to exceed 95% • Corporate gross revenue pledge • Verification of borrower funds to close escrow | | | | | | | | | | | | | | | | | |
| <p>Financial Overview: Gateway Center’s income statement exhibits positive operating results with increasing net assets each year of the review period. Gateway Center displays a solid balance sheet with a pro-forma net debt service coverage ratio of 5.76x.</p> | | | | | | | | | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th style="width: 10%;"></th> <th style="text-align: right;"><u>Estimated Uses of Funds:</u></th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>HELP II loan</td> <td style="text-align: right;">\$ 400,000</td> <td>Refinance</td> <td style="text-align: right;">\$ 400,000</td> </tr> <tr> <td>Borrower funds</td> <td style="text-align: right;">8,000</td> <td>Financing costs</td> <td style="text-align: right;">8,000</td> </tr> <tr> <td>Total Estimated Sources</td> <td style="text-align: right;">\$ 408,000</td> <td>Total Estimated Uses</td> <td style="text-align: right;">\$ 408,000</td> </tr> </tbody> </table> | | <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | | HELP II loan | \$ 400,000 | Refinance | \$ 400,000 | Borrower funds | 8,000 | Financing costs | 8,000 | Total Estimated Sources | \$ 408,000 | Total Estimated Uses | \$ 408,000 |
| <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | | | | | | | | | | | | | | | |
| HELP II loan | \$ 400,000 | Refinance | \$ 400,000 | | | | | | | | | | | | | | |
| Borrower funds | 8,000 | Financing costs | 8,000 | | | | | | | | | | | | | | |
| Total Estimated Sources | \$ 408,000 | Total Estimated Uses | \$ 408,000 | | | | | | | | | | | | | | |
| <p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, and Religious Affiliation documentation. All documentation satisfies the Authority’s requirements.</p> | | | | | | | | | | | | | | | | | |
| <p>Staff Recommendation: Staff recommends approval of Resolution Number HII-329 for Gateway Center of Monterey County, Inc. in an amount not to exceed \$400,000 for a term not to exceed seven (7) 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:

In 1992, Gateway Center participated in the CHFFA-issued Short Term Adjustable Rate Taxable Securities (STARTS) – Small Facilities Pooled Loan Program 1992 Series B bonds (the STARTS Bonds). The pooled financing program allowed for multiple participants to share the costs of issuing bonds as well as ongoing annual administrative costs. However, as participants left the program, the shared ongoing costs increased for the individual participants that remained. In 2015, Gateway Center refinanced its portion of the STARTS Bonds with a loan from Bank of America, which has a balloon payment due in December 2025.

Gateway Center now seeks a HELP II loan to refinance its loan with Bank of America (BoA) in order to replace the balloon payment. Gateway Center is requesting a loan term of seven years (rather than the maximum allowable 15 years) to maintain a similar monthly payment as their current loan and to reduce the total interest paid on the new HELP II loan. The BoA loan has approximately \$480,000 currently outstanding and Gateway Center anticipates paying down about \$90,000 prior to closing the HELP II loan. Although the BoA loan carries a 4% interest rate, Gateway Center anticipates little to no total savings since the term of the HELP II loan is two years longer than the BoA loan.

Refinance*** ***\$400,000

Loan proceeds will be used to refinance a loan with BoA, which was used to refinance the STARTS Bonds. Proceeds from the STARTS Bonds were used to consolidate debt as well as to reimburse Gateway Center for prior remodeling expenditures at one of its facilities. In early 1992, Gateway Center financed the purchase of a new facility with two mortgages. Combined with an existing mortgage on a separate facility, Gateway Center was able to consolidate the three mortgages for the two facilities into a single debt instrument with the STARTS Bonds. The new facility required minor remodeling in order to comply with licensing and fire code requirements. The remodeling project included the construction of an outside exit from the second floor, installing an alarm system and smoke detectors, handrails on all stairs, and painting and carpeting.

The HELP II loan will be secured by a first (1st) lien position on the property. Gateway Center estimates the value of the property at \$1,100,000, resulting in an estimated loan-to-value ratio of 36%.

Financing Costs*** ***8,000

Authority Fees \$5,000

Estimated Escrow/Title Fees 3,000

Total Uses of Funds ***\$408,000***

II. FINANCIAL STATEMENTS AND ANALYSIS:

Gateway Center of Monterey County, Inc.
Statement of Activities
(Income Statement)

| | As of June 30, | | |
|--|---------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| Support and revenue | | | |
| Fees for services | 4,492,512 | 4,325,097 | 4,041,856 |
| Grants | 329 | 47,046 | 34,204 |
| Contributions | 134,883 | 28,939 | 586,563 |
| Special events, net | 9,732 | 27,764 | 41,800 |
| Investment income | 2,901 | 7,700 | 4,812 |
| In-kind donations | 17,452 | 26,102 | 22,831 |
| Other income | 92,642 | 61,008 | 62,051 |
| Net assets released from restrictions | | | |
| Restrictions satisfied by expenditure | 61,524 | 5,064 | 700 |
| Total support and revenue | <u>4,811,975</u> | <u>4,528,720</u> | <u>4,794,817</u> |
| Expenses | | | |
| Staff costs | 3,369,236 | 3,212,419 | 3,096,588 |
| Occupancy costs | 437,103 | 329,962 | 293,347 |
| Interest and amortization | 26,041 | 33,957 | 34,853 |
| Postage and printing | 3,841 | 3,112 | 7,077 |
| Professional fees | 248,910 | 243,073 | 213,261 |
| Supplies | 106,601 | 102,901 | 93,033 |
| Insurance | 36,005 | 38,219 | 30,206 |
| In-kind services | - | 9,806 | 18,129 |
| Depreciation | 154,970 | 148,331 | 137,101 |
| Equipment rent and maintenance | 29,291 | 20,415 | 16,169 |
| Travel and vehicles maintenance | 80,156 | 95,742 | 74,854 |
| Food | 60,893 | 49,599 | 56,709 |
| Licenses and permits | 37,995 | 22,846 | 18,982 |
| Consumer entertainment - non reimbursable | 26,957 | 18,471 | 10,440 |
| Miscellaneous | 9,649 | 12,429 | 52,542 |
| Total expenses | <u>4,627,648</u> | <u>4,341,282</u> | <u>4,153,291</u> |
| Change in net assets | <u>184,327</u> | <u>187,438</u> | <u>641,526</u> |
| Net assets at beginning of year | 2,847,531 | 2,660,093 | 1,989,340 |
| Prior period adjustment | - | - | 29,227 |
| Net assets, beginning of year, as restated | <u>-</u> | <u>-</u> | <u>2,018,567</u> |
| Net assets at end of year | <u>\$ 3,031,858</u> | <u>\$ 2,847,531</u> | <u>\$ 2,660,093</u> |

Gateway Center of Monterey County, Inc.
Statement of Financial Position
(Balance Sheet)

| | As of June 30, | | |
|---|-----------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| Assets | | | |
| Cash and cash equivalents | 1,028,982 | 423,350 | 391,271 |
| Certificates of deposit | - | 124,581 | 160,403 |
| Investments | 110,504 | 10,251 | 10,284 |
| Accounts receivable | 479,395 | 697,961 | 991,625 |
| Prepaid expenses | 96,808 | 99,272 | 69,548 |
| Deferred charges | - | - | 7,437 |
| Restricted cash - client trust funds | 35,569 | - | - |
| Funds held in trust | - | 28,120 | 23,092 |
| Self-insurance trust funds | 58,042 | - | - |
| Other assets | - | 54,958 | 41,590 |
| Fixed assets, net | 2,195,820 | 2,273,999 | 2,297,847 |
| Total assets and deferred outflows of resources | <u>\$ 4,005,120</u> | <u>\$ 3,712,492</u> | <u>\$ 3,993,097</u> |
| Liabilities and net assets | | | |
| Liabilities | | | |
| Accounts payable | 202,113 | 79,267 | 106,369 |
| Accrued payroll liabilities | 132,248 | 122,941 | 111,237 |
| Accrued liabilities | - | 162 | 1,779 |
| Deferred revenue | 20 | 40 | - |
| Client trust funds | 35,569 | 28,120 | 23,092 |
| Mortgage payable, net of loan fees | 562,961 | 630,117 | 1,084,744 |
| Total liabilities | <u>932,911</u> | <u>860,647</u> | <u>1,327,221</u> |
| Net assets | | | |
| Without donor restriction | | | |
| Undesignated | 3,031,858 | - | - |
| With donor restriction | | | |
| Purpose restrictions | 40,351 | - | - |
| Unrestricted | - | 2,847,531 | 2,660,093 |
| Temporarily restricted | - | 4,314 | 5,783 |
| Total net assets | <u>3,072,209</u> | <u>2,851,845</u> | <u>2,665,876</u> |
| Total liabilities and net assets | <u>\$ 4,005,120</u> | <u>\$ 3,712,492</u> | <u>\$ 3,993,097</u> |

| | Proforma ^(a) | | | |
|-------------------------------------|--------------------------------|-------------|-------------|-------------|
| | FYE June 30, 2019 | 2019 | 2018 | 2017 |
| Debt Service Coverage - Net (x) | 5.76 | 4.44 | 1.12 | 10.61 |
| Debt to Unrestricted Net Assets (x) | 0.13 | 0.19 | 0.22 | 0.41 |
| Margin (%) | | 3.83 | 4.14 | 13.38 |
| Current Ratio (x) | | 4.36 | 5.24 | 3.16 |

^(a) Does not include an approximate \$700k Paycheck Protection Program loan obtained from the U.S. Small Business Administration in 2020

Financial Discussion – Statement of Activities (Income Statement)

Gateway Center’s income statement exhibits positive operating results with increasing net assets each year of the review period.

Gateway Center’s income statement exhibits positive operating results with solid margins of 13.4%, 4.1%, and 3.8% in FY’s 2017, 2018, and 2019, respectively. However, the margins have been decreasing each year as increases in total expenses outpaced increases in total revenues from FY 2017 to FY 2019. Gateway Center experienced a decrease in total support and revenue in FY 2018, mainly due to a significant decrease in Contributions from approximately \$587,000 in FY 2017 to approximately \$29,000 in FY 2018. According to Gateway Center’s management, the organization received a sizeable memorial gift in FY 2017, which inflated the number for that fiscal year. In FY 2019, contributions rebounded to approximately \$135,000.

Gateway Center appears to maintain solid margins due to modest increases in staff costs, its largest expense, which grew 3.7% in FY 2018 and 4.9% in FY 2019. In total, expenses grew from approximately \$4.2 million in FY 2017 to approximately \$4.6 million in FY 2019. According to Gateway Center’s management, a driver of increased expenses was significantly increased costs for nurse consulting. For a period of time Gateway Center had to increase its use of nurse consultants as two Qualified Intellectual Disabilities Professional (QIDP) positions were vacant. Both QIDP positions are now filled.

Gateway Center has not been financially impacted by the COVID-19 pandemic, with revenues remaining steady and State funding increasing slightly. Gateway Center also received a Paycheck Protection Program (PPP) Forgivable Loan in the amount of \$700,000 and a Crisis Relief Grant in the amount of \$90,000.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Gateway Center displays a solid balance sheet with a pro-forma net debt service coverage ratio of 5.76x.

Gateway Center displays a solid balance sheet and a strong ability to make its annual debt payments with a debt service coverage ratio of 10.61x in FY 2017, 1.12x in FY 2018, and 4.44x in FY 2019. According to Gateway Center’s management, the much smaller ratio for FY 2018 was primarily due to a larger than normal debt service payment in that fiscal year. With the HELP II loan, Gateway Center’s pro-forma net debt service coverage ratio increases to 5.76x. Gateway Center will pay down a portion of its existing BoA loan prior to closing the HELP II loan, resulting in a smaller amount of debt needing to be refinanced, which leads to the improved pro-forma net debt service coverage ratio. Staff, in consultation with its financial analyst, considered the impact of the PPP loan and concluded the PPP loan should not affect the financial viability of Gateway Center as it is expected to be forgiven. A main factor for PPP loan forgiveness requires organizations to maintain similar levels of employment and pay to pre-pandemic levels. Gateway Center’s management states it has maintained an average payroll range between 96% and 102% since acquiring the PPP loan.

Gateway Center also has steadily decreased its long-term debt with its mortgage payable liability shrinking from approximately \$1.1 million in FY 2017 to approximately \$563,000 in FY 2019. The corresponding debt-to-unrestricted net assets ratio strengthened from 0.41x in FY 2017 to 0.19x in FY 2019. With the refinancing HELP II loan, Gateway Center’s pro-forma FY 2019 debt to unrestricted net assets ratio further strengthens to 0.13x.

III. UTILIZATION STATISTICS:

**Clients Served
Fiscal Year Ended June 30,**

| | 2019 | 2018 | 2017 |
|--------|-------------|-------------|-------------|
| Totals | 60 | 60 | 60 |

IV. OUTSTANDING DEBT:

| | Original Amount | Amount Outstanding As of June 30, 2019 | Estimated Amount Outstanding after Proposed Financing |
|---|-----------------|--|---|
| <i>-EXISTING LONG-TERM DEBT</i> | | | |
| Bank of America Note (2015) | \$ 1,150,000 | \$ 568,648 | \$ - |
| U.S. Small Business Administration Loan (2020) ^(a) | 700,000 | - | 700,000 |
| <i>-PROPOSED NEW DEBT</i> | | | |
| <i>HELP II Loan</i> | | | 400,000 |
| <i>-TOTAL DEBT</i> | | \$ 568,648 | \$ 1,100,000 |

^(a) Payment Protection Program Loan. Expected to be forgiven in full.

V. BACKGROUND AND LICENSURE:

Background

Gateway Center is a 501(c)(3) corporation that began in 1954 with a group of parents who wanted to offer their special needs infants and children a place to grow and thrive. Their intent was to enhance the quality of their children's lives while ensuring safety and promoting learning and independence. The result was a small day school in Monterey. At the time, it was the only educational option for developmentally disabled children in the area.

As the children grew up, new services were needed for the county's growing number of developmentally disabled adults. In 1975, Gateway Center purchased its current building on Congress Avenue in Pacific Grove and established an innovative new program that provided day and residential services to 46 developmentally disabled adults. Today, Gateway Center serves over 60 adults with developmental disabilities in both day and residential programs. Many of the consumers have been clients for several years, with a number of them having multiple health issues.

Gateway Center's day programs provide a wide range of daily activity choices designed to be fun and rewarding, while enhancing community integration, life skills and socialization at the same time. The residential programs also include activities intended to enhance independence, community integration and the acquisition of daily living skills.

Licensure, Certification and Accreditation

Gateway Center is licensed by the California Department of Public Health to operate and maintain Intermediate Care Facility/Developmentally Disabled – Habilitative facilities.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-329

**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, **Gateway Center of Monterey County, 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 the loan to the Borrower, in an amount not to exceed **\$400,000** for a term not to exceed **7 years** 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. 7-year, three percent (3%) fixed rate loan;
2. First lien on the real property at 850 Congress Avenue, Pacific Grove, CA 93950;
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; and
5. Verification of Borrower’s funds to close escrow.

Section 2. The Executive Director and the Deputy Executive Director are 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 and the Deputy Executive Director are 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 and the Deputy Executive Director of the Authority are 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: _____