

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant: Fred Brown’s Recovery Services, Inc. (FBRS)
270 West 14th Street
San Pedro, CA 90731
Los Angeles County

Loan Amount: \$468,000
Loan Term: 15-year fixed
Annual Interest Rate: 3%
Authority Meeting Date: April 28, 2022
Resolution Number: HII-332

Project Site: 1343 West 4th Street, San Pedro, CA 90732
Facility Type: Drug and Alcohol Recovery and Clinic
Eligibility: Government Code Section 15432(d)(13)
Prior HELP II Borrower: No

Background: FBRS opened in 1983 as a 6-bed sober living home in San Pedro. Over the past 30 years, FBRS has grown to manage a portfolio of more than 20 licensed residential, outpatient and sober living facilities throughout the greater San Pedro area. Through these facilities, FBRS currently provides services for more than 1,000 persons annually.

Use of Loan Proceeds: Loan proceeds will be used to refinance an existing variable rate loan with Cathay Bank. The new HELP II loan will reduce FBRS’ exposure to the variable interest rate, reduce the interest burden over the life of the loan, and eliminate a balloon payment.

Financing Structure:

- First lien on the real property located at 1343 West 4th Street, San Pedro, CA 90732
- 15-year, three percent (3%) fixed rate loan
- 180 equal monthly payments of approximately \$3,232 (annual payments of approximately \$38,783)
- 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

Financial Overview: FBRS’ income statement exhibits positive gains for net income over the review period. FBRS’ balance sheet appears stable with a net pro-forma debt service coverage ratio of 1.06x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$ 468,000	Refinancing	\$ 468,000
Borrower funds	7,850	Financing cost	7,850
Total Estimated Sources	<u>\$ 475,850</u>	Total Estimated Uses	<u>\$ 475,850</u>

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, and Religious Affiliation documentation. All documentation satisfies the Authority’s requirements.

Staff Recommendation: Staff recommends approval of Resolution Number HII-332 for Fred Brown’s Recovery Services, Inc. in an amount not to exceed \$468,000 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:

FBRs is requesting a HELP II loan (2022 HELP II loan) to refinance an existing variable rate loan from Cathay Bank (Cathay Loan). FBRs entered into the Cathay Loan in order to purchase the facility at 1343 West 4th Street in San Pedro. This refinancing will allow FBRs to transition from a variable rate loan to a fixed rate loan, which will eliminate the financial risk associated with the variable interest rate and reduce interest costs over the life of the loan. In addition, this refinancing will eliminate the balloon payment on the Cathay Loan, which, together with the reduced interest costs, will support operational and financial prudence and flexibility.

Refinancing **\$468,000**

FBRs obtained the \$468,000 Cathay Loan to purchase a property to provide residents with sober housing (Recovery Bridge Housing) in conjunction with outpatient services at a nearby clinic previously leased by FBRs. This 2,712 square-foot single-family, 3-bedroom, 3-bathroom home can accommodate between nine and 12 residents. The Cathay Loan has a variable interest rate calculated daily at 2.25% above the 10-year Treasury Rate, with a minimum interest rate of 4%. Furthermore, the loan has a balloon payment due at maturity in May 2031.

The 2022 HELP II loan will be secured by a first (1st) lien position on the property located at 1343 West 4th Street, San Pedro, CA 90732. FBRs' management estimates the property value at \$801,000, leading to a loan-to-value ratio of approximately 58%. An appraisal acceptable to the Authority will need to be completed prior to closing to reflect a loan-to-value ratio less than 95%.

Financing Costs		<u>7,850</u>
Authority Fees	\$5,850	
Estimated Escrow/Title Fees	<u>2,000</u>	
Total Uses of Funds		<u>\$475,850</u>

II. FINANCIAL STATEMENTS AND ANALYSIS:

The following analysis displays fiscal year (FY) 2020 as the most current audited financial statements available due to various difficulties finalizing the FY 2021 audit brought about by the COVID-19 pandemic. However, staff and TAP International have seen the preliminary FY 2021 financials, which do not raise any concerns at this time. In addition, the pro-forma analysis accounts for debt obtained after FY 2020.

Fred Brown's Recovery Services, Inc.
Statement of Activities
(Income Statement)

	For the Years Ended July 31,		
	2020	2019	2018
Public support and revenue			
Patient income	\$ 4,243,212	\$ 3,445,201	\$ 2,983,370
Grant income	270,416	-	-
Other income	1,051	3,366	1,740
Total public support and revenue	<u>4,514,679</u>	<u>3,448,567</u>	<u>2,985,110</u>
Expenses			
Salaries	2,186,327	1,473,403	1,098,430
Bank charges & 401K fees	405	11,969	-
Depreciation	19,090	17,928	16,396
DMC contract fees	-	48,417	-
Employee benefits	90,340	78,461	65,705
Gifts	1,219	1,525	-
Groceries & household	113,268	76,531	179,820
Insurance	98,007	113,260	79,084
Legal and professional	66,610	68,749	60,875
Licenses & fees	18,121	14,776	12,500
Occupancy	955,960	747,011	610,170
Office expenses	18,637	22,300	-
Payroll taxes	196,504	134,125	101,438
Miscellaneous	17,710	6,343	20,294
Refunds	-	-	1,930
Repairs and maintenance	237,674	213,017	69,868
Supplies	156,234	44,128	31,472
Transportation	69,985	75,694	67,685
Travel	440	116	-
Utilities	222,819	208,208	173,532
Total expenses	<u>4,469,350</u>	<u>3,355,961</u>	<u>2,589,199</u>
Increase in net assets without donor restrictions	45,329	92,606	395,911
Net position - beginning of year	<u>1,300,786</u>	<u>1,208,180</u>	<u>812,269</u>
Net position - end of year	<u>\$ 1,346,115</u>	<u>\$ 1,300,786</u>	<u>\$ 1,208,180</u>

Fred Brown's Recovery Services, Inc.
Statement of Financial Position
(Balance Sheet)

	As of July 31,		
	2020	2019	2018
Assets			
Current assets			
Cash and cash equivalents	\$ 1,426,614	\$ 715,297	\$ 597,881
Accounts receivable	472,205	571,874	616,676
Total current assets	<u>1,898,819</u>	<u>1,287,171</u>	<u>1,214,557</u>
Fixed assets			
Furniture, fixtures and equipment	340,609	317,607	266,266
Less: Accumulated depreciation	<u>(264,864)</u>	<u>(245,775)</u>	<u>(227,848)</u>
Total fixed assets	<u>75,745</u>	<u>71,832</u>	<u>38,418</u>
Other assets			
	33,850	14,900	10,800
Total assets	<u>\$ 2,008,414</u>	<u>\$ 1,373,903</u>	<u>\$ 1,263,775</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable & accrued expenses	\$ 166,377	\$ 73,117	\$ 55,595
EIDL loan	149,900	-	-
Payroll protection program advance	<u>346,022</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>662,299</u>	<u>73,117</u>	<u>55,595</u>
Net assets			
Without donor restrictions	1,346,115	1,300,786	1,208,180
Total liabilities and net assets	<u>\$ 2,008,414</u>	<u>\$ 1,373,903</u>	<u>\$ 1,263,775</u>

	Proforma			
	FYE July 31, 2020	2020	2019	2018
Debt Service Coverage - Net (x)	1.06	N/A	N/A	N/A
Debt to Unrestricted Net Assets (x)	0.46	0.37	0.00	0.00
Margin (%)	-	1.00	2.69	13.26
Current Ratio (x)	-	11.41	17.60	21.85

Financial Discussion

FBRS' income statement exhibits positive gains for net income over the review period.

FBRS' revenue exhibits a positive upward trend, increasing 51% from approximately \$3 million in FY 2018 to approximately \$4.5 million in FY 2020. According to FBRS' management, this increase in revenue is primarily due to an increase in services provided, service rates, and grant income. During the same period, expenses also showed a 73% increase from approximately \$2.6 million in FY 2018 to approximately \$4.5 million in FY 2020. According to FBRS' management, this increase in expenses was attributable to the new services provided as well as one-time start-up costs for new residential sites. Although, the increase in expenses outpaced the increase in revenue, FBRS still maintained positive gains in net income over the review period, ending with a margin of 1% in FY 2020.

Since the beginning of the COVID-19 pandemic, FBRS' costs of providing care increased due to various hardships such as staffing shortages, quarantines that resulted in empty beds, supply chain disruptions for necessary cleaning supplies, as well as extra costs associated with Personal Protective Equipment supplies and distribution. To help with these increased costs, FBRS received two Paycheck Protection Program Forgivable Loans (PPP Loans) in the amount of \$346,022 each in FY 2020 and FY 2021, respectively, and an Economic Injury Disaster Loan (EIDL) in the amount of \$149,900 in FY 2020.

FBRS' balance sheet appears stable with a net pro-forma debt service coverage ratio of 1.06x.

In FY 2018 and FY 2019, FBRS demonstrated no reliance on debt financing; however, FBRS took on debt in subsequent years, mainly due to the adverse effects of the COVID-19 pandemic. FBRS received PPP Loans in May 2020 and February 2021 that were ultimately forgiven in March 2021 and March 2022, respectively. FBRS received an EIDL in July 2020, which is not eligible for forgiveness, for operating expenses related to COVID-19, making the EIDL the only outstanding debt in FY 2020. Additionally, FBRS received the Cathay Loan in May 2021.

To more accurately calculate the 2020 pro-forma analysis, staff included the EIDL and the 2022 HELP II Loan. FBRS' 2020 pro-forma debt service coverage ratio is 1.06x, which shows its ability to repay the debt. Furthermore, FBRS had a debt to unrestricted net assets ratio of 0.37x in FY 2020, which reflects just the debt from the EIDL and demonstrates FBRS' ample readiness to take on debt. The pro-forma debt to unrestricted net assets ratio increased to 0.46x with the 2022 HELP II Loan, which still shows FBRS' strong ability to manage the debt. Additionally, staff has analyzed the preliminary 2021 pro-forma ratios, and those ratios appeared to be stronger than the 2020 pro-forma ratios.

Moreover, FBRS appears to display financial stability in the balance sheet as total assets increased from approximately \$1.3 million in FY 2018 to \$2 million in FY 2020. According to FBRS' management, this increase is primarily the result of pandemic-related grants that have not been fully utilized yet. Total liabilities also increased as well from approximately \$56,000 in FY 2018 to approximately \$662,000 in FY 2020, which is mainly due to the PPP Loans and the EIDL. However, as mentioned earlier, especially with the forgiveness of the PPP Loans, total assets increased more than total liabilities did over the review period.

III. UTILIZATION STATISTICS:

**Clients Served/(Patient Visits)
Fiscal Year Ended July 31,**

	2020	2019	2018
Totals	423/(929)	406/(1,071)	312/(824)

IV. OUTSTANDING DEBT:

	Date Issued	Original Amount	Amount Outstanding	Estimated Amount Outstanding after Proposed Financing
- EXISTING				
LONG-TERM DEBT:				
Cathay Bank	05/2021	\$480,000	\$468,000	\$0
EIDL Loan	07/2020	149,900	149,900	149,900
- PROPOSED NEW DEBT				
2022 HELP II Loan				\$468,000
- TOTAL DEBT			\$617,900	\$617,900

V. BACKGROUND AND LICENSURE:

Background

Fred Brown's Recovery Services is a non-profit corporation, founded in 1983, that provides a 12-step based program for the treatment of chemical dependency. The various services include licensed residential treatment, outpatient treatment, housing, and employment training to individuals ages 18 and over. Treatment may also include medically assisted treatment, incidental medical services and services to those with a co-occurring mental health issue in addition to a substance use disorder. FBRS provides both in-person and telephonic pre-admission counseling to prospective participants, and once admitted, each patient is assigned to a primary counselor who meets with them daily. Supplemental services during the course of treatment are available either on-site or through relationships FBRS has developed with agencies providing medical services, mental health, family therapy, parenting instruction, vocational rehabilitation, social and legal services, and other services. Through its various services, FBRS serves more than 1,000 persons annually.

Licensure, Certification and Accreditation

FBRS is licensed by the California Department of Health Care Services to operate and maintain an alcohol and/or other drug program. This certification extends to outpatient and intensive outpatient services.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-332

**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, **Fred Brown’s Recovery Services, 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 **\$468,000** for a term not to exceed **15 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. 15-year, three percent (3%) fixed-rate loan;
2. First lien on the real property at 1343 West 4th Street, San Pedro, CA 90732;
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: _____