

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant: Henrietta Weill Memorial Child
Guidance Clinic (HW Memorial)
3628 Stockdale Highway
Bakersfield, CA 93309
Kern County

Loan Amount: \$2,000,000
Loan Term: 20-year fixed
Annual Interest Rate: 2%
Authority Meeting Date: June 30, 2022
Resolution Number: HII-333

Project Site: 661 Roberts Lane, Bakersfield, CA 93309
Facility Type: Community Mental Health Center
Eligibility: Government Code Section 15432(d)(16)
Prior HELP II Borrower: No

Background: Established in 1946, HW Memorial is a private, non-profit outpatient mental health center serving children and families in and around Kern County. HW Memorial offers a full array of services, including individual, family, and group counseling as well as medication support, substance abuse services, early intervention services, and more. In 2021, HW Memorial served 4,131 patients in Kern County and its surrounding area.

Use of Loan Proceeds: Loan proceeds will be used to finance the purchase of an existing 19,800 square-foot medical facility located at 661 Roberts Lane in Bakersfield, CA 93309. The purchase is estimated to present significant long-term financial savings to HW Memorial since it currently leases the entirety of the space.

Financing Structure:

- Second lien on the real property located at 661 Roberts Lane, Bakersfield, CA 93309
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$10,118 (annual payments of approximately \$121,416)
- A current appraisal that exhibits a combined loan-to-value ratio not to exceed 95%
- Corporate gross revenue pledge
- Verification of borrower funds to close escrow

Financial Overview: HW Memorial's income statement appears to exhibit positive operating results with an increase in unrestricted net assets in each fiscal year over the review period. HW Memorial appears to display a solid balance sheet, with a pro-forma net debt service coverage ratio of 1.85x.

Estimated Sources of Funds:

| | |
|-----------------|--------------|
| Bank loan | \$ 2,750,000 |
| HELP II loan | 2,000,000 |
| Applicant funds | 277,000 |

Estimated Uses of Funds:

| | |
|------------------------|--------------|
| Purchase real property | \$ 5,000,000 |
| Financing costs | 27,000 |

Total Estimated Sources

\$ 5,027,000

Total Estimated Uses

\$ 5,027,000

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-333 for Henrietta Weill Memorial Child Guidance Clinic in an amount not to exceed \$2,000,000 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.

I. PURPOSE OF FINANCING:

HW Memorial is requesting a HELP II loan to partially finance the purchase of an existing medical facility, from which it currently operates its North Bakersfield Children’s and North Bakersfield Adult programs. The purchase of this facility will assist HW Memorial with its goal to expand services and become a “one-stop shop” for services provided to the North Bakersfield community. HW Memorial currently leases the entirety of the space pursuant to a 10-year lease, and its management believes that purchasing rather than leasing the property will serve as a significant long-term financial benefit by strengthening cash flow. It is estimated that HW Memorial will net an annual savings of approximately \$45,000 by owning the property.

In addition to the HELP II loan, HW Memorial was recently approved for a loan from Valley Strong Credit Union (VSCU) for the remainder of the funds needed for the acquisition. The VSCU loan will be in the approximate amount of \$2,750,000.

***Purchase real property* \$5,000,000**

HELP II loan proceeds will be used to help finance the purchase of the 19,800 square-foot medical facility located at 661 Roberts Lane in Bakersfield, CA 93309. The medical facility provides HW Memorial space to offer outpatient mental health and dual diagnosis services consisting of group, family, individual therapy, psychiatric and medication support services, and intensive case management. In total, approximately 2,200 clients receive services at the facility on an annual basis. The facility also features individual office spaces for in-home therapists, psychiatric nurse practitioners, medical secretaries, and quality assurance staff. In addition to the service areas and staff offices, the facility also accommodates a medical records room, group rooms, a staff lounge, restrooms, an outside play area, waiting area, front desk, a storage room, and a mail room. HW Memorial’s management anticipates that a substance use treatment program will also be located at this site in the near future.

The HELP II loan will be secured by a second (2nd) lien position on the property located at 661 Roberts Lane in Bakersfield, CA 93309. HW Memorial’s management estimates the property to be valued at \$5,000,000, leading to an estimated combined loan-to-value ratio of approximately 95%. An appraisal acceptable to the Authority will need to be completed prior to closing to reflect a combined loan-to-value ratio of 95% or less.

| | | |
|-------------------------------------|--------------|---------------------------|
| <i>Financing Costs</i> | | <u>27,000</u> |
| Authority Fees | \$25,000 | |
| Estimated Escrow/Title Fees | <u>2,000</u> | |
| Total Uses of Funds | | <u>\$5,027,000</u> |

II. FINANCIAL STATEMENTS AND ANALYSIS:

**Henrietta Weill Memorial Child Guidance Clinic
Statement of Activities
(Income Statement)**

| | For the Years Ended June 30, | | |
|--|-------------------------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 |
| Revenues, gains, and other support | | | |
| Public support: | | | |
| Cash contributions | \$ 60,147 | \$ 45,475 | \$ 91,179 |
| Contributions-in-kind | 100,394 | 17,184 | 71,929 |
| Program revenues: | | | |
| Outpatient | 12,860,100 | 12,447,452 | 9,252,075 |
| Grants: | | | |
| In Home Parenting | 209,008 | 229,267 | 166,410 |
| Parent Education | 233,812 | 206,650 | 135,149 |
| Kinship | 145,356 | 150,736 | 299,377 |
| Miscellaneous | 7,562 | 15,344 | 14,016 |
| Dividends | 13,636 | 17,118 | 16,796 |
| Net realized and unrealized gain on investments | 104,294 | (8,084) | 50,962 |
| Net assets released from restrictions | 40,836 | 55,284 | 2,358 |
| Total revenues, gains, and other support | <u>13,775,145</u> | <u>13,176,426</u> | <u>10,100,251</u> |
| Expenses | | | |
| Salaries and related expenses | 10,871,874 | 10,362,100 | 7,303,077 |
| Professional fees | 1,007,529 | 1,067,649 | 920,998 |
| Rent | 524,992 | 259,174 | 253,168 |
| Depreciation | 195,963 | 159,326 | 116,161 |
| Telephone/telecommunications | 170,012 | 129,987 | 99,133 |
| Supplies | 154,379 | 190,649 | 122,693 |
| Care of buildings and grounds | 126,758 | 140,263 | 108,517 |
| Miscellaneous | 125,928 | 94,829 | 108,206 |
| Utilities | 119,798 | 124,615 | 118,589 |
| Insurance | 116,061 | 111,277 | 106,566 |
| Equipment and leases | 105,435 | 121,097 | 159,060 |
| Professional development | 43,051 | 41,162 | 61,921 |
| Dues and subscriptions | 24,277 | 25,244 | 1,951 |
| Recruiting | 20,277 | 24,131 | 20,783 |
| Taxes and fees | 36,864 | 3,205 | 4,748 |
| Travel | 19,250 | 68,188 | 71,293 |
| Marketing | 13,626 | 11,205 | 5,423 |
| Interest | 12,996 | 12,198 | 11,262 |
| Printing | 2,067 | 6,406 | 8,926 |
| Board of directors | 1,752 | 3,491 | 1,831 |
| Total expenses | <u>13,692,889</u> | <u>12,956,196</u> | <u>9,604,306</u> |
| Change in net assets without donor restrictions | 82,256 | 220,230 | 495,945 |
| Net assets without donor restrictions, beginning of year | <u>2,423,919</u> | <u>2,203,689</u> | <u>1,707,744</u> |
| Net assets without donor restrictions, end of year | <u>\$ 2,506,175</u> | <u>\$ 2,423,919</u> | <u>\$ 2,203,689</u> |

Henrietta Weill Memorial Child Guidance Clinic
Statement of Financial Position
(Balance Sheet)

| | As of June 30, | | |
|---|---------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 1,158,676 | \$ 1,785,329 | \$ 1,019,953 |
| Accounts receivable | 1,460,985 | 947,856 | 1,203,160 |
| Prepaid expenses and deposits | 72,697 | 176,027 | 64,613 |
| Total current assets | <u>2,692,358</u> | <u>2,909,212</u> | <u>2,287,726</u> |
| Property and Equipment | | | |
| Land | 149,232 | 149,232 | 149,232 |
| Building and improvements | 2,241,758 | 2,108,695 | 2,088,741 |
| Equipment | 696,167 | 650,519 | 557,337 |
| Computers | 428,197 | 357,934 | 164,793 |
| Construction in progress | 19,456 | - | - |
| | <u>3,534,810</u> | <u>3,266,380</u> | <u>2,960,103</u> |
| Less accumulated depreciation | <u>(2,554,003)</u> | <u>(2,358,041)</u> | <u>(2,198,715)</u> |
| | <u>980,807</u> | <u>908,339</u> | <u>761,388</u> |
| Noncurrent Assets | | | |
| Investments | <u>694,388</u> | <u>582,103</u> | <u>708,943</u> |
| Total assets | <u>\$ 4,367,553</u> | <u>\$ 4,399,654</u> | <u>\$ 3,758,057</u> |
| Liabilities and Net Assets | | | |
| Current Liabilities | | | |
| Current maturities of long-term debt | \$ 13,042 | \$ 6,101 | \$ 5,813 |
| Accounts payable | 279,474 | 213,503 | 258,319 |
| Accrued expenses | 152,685 | 157,668 | 199,493 |
| Accrued salaries payable | 353,583 | 526,084 | 332,190 |
| Compensated absences payable | 575,237 | 673,430 | 360,444 |
| Deferred revenue | 79,713 | 24,315 | 24,065 |
| Potential cost reimbursement | 115,206 | 153,891 | 156,049 |
| Total current liabilities | <u>1,568,940</u> | <u>1,754,992</u> | <u>1,336,373</u> |
| Long-term Debt, less current maturities | 265,718 | 202,212 | 208,233 |
| Commitments | | | |
| Net Assets | | | |
| With donor restrictions | 26,720 | 18,531 | 9,762 |
| Without donor restrictions | <u>2,506,175</u> | <u>2,423,919</u> | <u>2,203,689</u> |
| Total net assets | <u>2,532,895</u> | <u>2,442,450</u> | <u>2,213,451</u> |
| Total liabilities and net assets | <u>\$ 4,367,553</u> | <u>\$ 4,399,654</u> | <u>\$ 3,758,057</u> |

| | Proforma | | | |
|-------------------------------------|--------------------------|-------------|-------------|-------------|
| | FYE June 30, 2021 | 2021 | 2020 | 2019 |
| Debt Service Coverage - Net (x) | 1.85 | 15.25 | 21.75 | 37.11 |
| Debt to Unrestricted Net Assets (x) | 2.01 | 0.11 | 0.09 | 0.10 |
| Margin (%) | N/A | 0.60 | 1.67 | 4.91 |
| Current Ratio (x) | N/A | 1.72 | 1.66 | 1.71 |

Financial Discussion

HW Memorial's income statement appears to exhibit positive operating results with an increase in net assets without donor restrictions in each fiscal year over the review period.

HW Memorial appears to exhibit positive operating margins over the review period, although decreasing from 4.9% in FY 2019 to 0.6% in FY 2021. Total revenues grew by 36.4% from approximately \$10.1 million in FY 2019 to just under \$13.8 million in FY 2021. It appears that much of this increase was caused by a jump in outpatient program revenues, which increased by 39% over the review period. HW Memorial's management attributes this increase to the acquisition of its Adult Behavioral Health Program and increases in existing contract budgets. Salaries and related expenses also increased from approximately \$7.3 million in FY 2019 to approximately \$10.9 million in FY 2021, which was primarily caused by the acquisition of the Adult Behavioral Health Program in 2019. Although total expenses increased by 42.6% and outpaced the growth of revenues over the review period, HW Memorial's management is confident in its ability to maintain positive operations, due to the fact that monthly expenses are closely monitored to ensure budget compliance, while also exploring ways of reducing discretionary expenses. Considering total net income, HW Memorial appears to have the ability to meet current and future debt obligations.

HW Memorial appears to display a solid balance sheet, with a pro-forma net debt service coverage ratio of 1.85x.

Over the three-year review period, HW Memorial's balance sheet has demonstrated a strong ability to service debt, currently displaying a strong net debt service coverage ratio of 15.25x for FY 2021. Although the proposed HELP II loan and the VSCU loan will significantly affect its net debt service coverage ratio, HW Memorial's pro-forma ratio remains solid at 1.85x, indicating its ability to support the proposed new debt. In FY 2021, HW Memorial had little outstanding debt, posting a debt to unrestricted net assets ratio of 0.11x. However, with the VSCU loan and proposed HELP II loan considered, the pro-forma debt to unrestricted net assets ratio increases to 2.01x. HW Memorial's management explains that it is comfortable incurring additional debt by maintaining strong cost reimbursement contracts, sizable reserves, and a positive cashflow.

HW Memorial's indicators of financial liquidity appear to be strong, posting a current ratio of 1.72x in FY 2021. It appears that the strength of the current ratio is correlated to the increase in cash and cash equivalents, which grew by 14% overall through the review period, but fluctuated from approximately \$1 million in FY 2019, to just under \$1.8 million in FY 2020, and ended at approximately \$1.2 million in FY 2021. HW Memorial's management explains that the brief decrease in cash and cash equivalents was triggered by the COVID-19 pandemic, which caused an approximate \$1 million reduction in its contract amount with Kern County during FY 2021; however, the contract amount has since been restored to its higher pre-pandemic level. In addition, the COVID-19 pandemic also caused a brief reduction in patient visits and fluctuating investment returns, which have also since returned to pre-pandemic standards. HW Memorial did not receive a Paycheck Protection Program loan or other governmental assistance related to the outbreak of COVID-19.

III. UTILIZATION STATISTICS:

**Clients Served / Patient Visits
Fiscal Year Ending June 30,**

| | 2021 | 2020 | 2019 |
|---------------|----------------|----------------|----------------|
| Totals | 4,131 / 68,328 | 4,084 / 65,343 | 3,661 / 45,369 |

IV. OUTSTANDING DEBT:

| <u>Date Issued</u> | <u>Original Amount</u> | <u>Amount Outstanding as of June 30, 2021</u> | <u>Estimated Amount Outstanding after Proposed Financing</u> |
|---|------------------------|---|--|
| <i>-EXISTING LONG-TERM DEBT:</i> | | | |
| Wells Fargo Bank Loan (2015) | \$ 250,000 | \$ 202,249 | \$ 202,249 |
| C&C Acquisition Private Loan (2020) | 84,232 | 76,511 | 76,511 |
| <i>-PROPOSED NEW DEBT</i> | | | |
| <i>HELP II Loan</i> | | - | 2,000,000 |
| <i>Valley Strong Credit Union Loan</i> | | - | 2,750,000 |
| <i>-TOTAL DEBT</i> | | <u>\$ 278,760</u> | <u>\$ 5,028,760</u> |

V. BACKGROUND AND LICENSURE:

Background

Established in 1946, HW Memorial is a private, non-profit outpatient mental health center serving children and families in and around Kern County. HW Memorial primarily provides services to children who have been identified as struggling with behavioral or emotional difficulties that are negatively affecting their functioning at home, in school, or in the community. In 2021, HW Memorial served 4,131 clients in Kern County and its surrounding area across 68,328 patient visits.

HW Memorial offers a full array of services including individual, family, and group counseling, as well as medication support, substance abuse services, early intervention services, parent education training, family reunification services, after-school education, mentoring programs, and kinship support services. To best serve its clients and communities, HW Memorial's mental health professionals provide counseling and case management services at three Kern County locations as well as services at homes, on school campuses, and at other designated community locations. HW Memorial's staff also provide mental health education and training to teachers, school administrators, agencies, service groups, and the general public through outreach consultation services. In 2013, HW Memorial's work in the community was recognized by the Greater Bakersfield Chamber of Commerce Beautiful Bakersfield Awards and the Chevron Community Investment Program.

Licensure, Certification and Accreditation

HW Memorial qualifies as a licensed community mental health center as defined in Welfare and Institutions Code Section 5667(b)(3) in accordance with Government Code Section 15432(d)(16). Per Welfare and Institutions Code Section 5667(b)(3), a non-profit agency that has a contract with a county mental health program to provide a comprehensive program of outpatient health services as well as diagnostic and therapeutic services and related counseling shall be considered to be a licensed facility. HW Memorial is a contract provider for the Kern County Mental Health Department, Kern County Department of Human Services, Kern County Network for Children, and First 5 Kern and provides these services.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-333

**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, **Henrietta Weill Memorial Child Guidance Clinic** (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 **\$2,000,000** for a term not to exceed **20 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. 20-year, two percent (2%) fixed-rate loan;
2. Second lien on the real property at 661 Roberts Lane in Bakersfield, CA 93309;
3. A current appraisal that is acceptable to Authority staff exhibiting a combined 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: _____