

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM (HELP II)
EXECUTIVE SUMMARY**

Applicant: Heritage Group Homes, Inc. (Heritage)
957 S. Village Oaks Drive
Covina, CA 91724
Los Angeles County

Loan Amount: \$2,000,000
Loan Term: 20-year fixed
Annual Interest Rate: 2%
Authority Meeting Date: July 28, 2022
Resolution Number: HII-334

Project Site: To Be Determined (Los Angeles or San Bernardino County)
Facility Type: Group Home
Eligibility: Government Code Section 15432(d)(13)
Prior HELP II Borrower: No

Background: Heritage was founded in 1991 and provides 24-hour comprehensive treatment services to at-risk children and their families. For over 30 years, Heritage has offered intensive mental health treatment services, now at six Short-Term Residential Treatment Program (STRTP) facilities throughout Los Angeles County. In 2021, through Heritage's various programs, over 170 clients were served.

Use of Proceeds: Loan proceeds will be used finance the purchase of a residential facility in Los Angeles County or San Bernardino County that will be used for permanent supportive housing and mental health services to serve foster youth ages 18-26 at time of entry into the permanent supportive housing program.

Financing Structure:

- First lien on the real property to be determined (Los Angeles or San Bernardino County)
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$10,118 (annual payments of approximately \$121,412)
- A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
- Corporate gross revenue pledge
- Executed purchase contract
- Verification of borrower funds to close escrow

Financial Overview: Heritage's income statement exhibits positive gains in net income over the review period. Heritage's balance sheet appears strong with a net pro-forma debt service coverage ratio of 9.51x.

| <u>Estimated Sources of Funds:</u> | | <u>Estimated Uses of Funds:</u> | |
|------------------------------------|----------------------------|---------------------------------|----------------------------|
| HELP II loan | \$ 2,000,000 | Purchase real property | \$ 2,000,000 |
| Borrower funds | <u>26,500</u> | Financing cost | <u>26,500</u> |
| Total Estimated Sources | <u>\$ 2,026,500</u> | Total Estimated Uses | <u>\$ 2,026,500</u> |

Due Diligence: Staff has confirmed the following documentation satisfies the California Health Facilities Financing Authority's (Authority) requirements: Eligibility, Legal Review and Religious Affiliation Due Diligence.

Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-334 for a HELP II loan for Heritage Group Homes, Inc., 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, the Authority's financial analyst, concurs with the Authority's staff recommendation.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING:

Heritage is requesting a HELP II loan to purchase a residential facility that will be used for permanent supportive housing and mental health services. This residential facility will allow Heritage to increase client capacity for youth exiting the foster care system and will help youth transitioning out of Heritage's existing licensed STRTP facilities, the U.S. Department Housing and Urban Development's Foster Care Vouchers Program or the coordinated entry system through the Los Angeles County Department of Children and Family Services. Once a youth is admitted into Heritage's permanent supportive housing program, there is no requirement that forces them to age-out of the program.

***Purchase Real Property*..... \$2,000,000**

Heritage intends to purchase a multi-family residential facility that will be able to serve foster youth entering the program between ages 18-26 and provide stable housing, caring connections and life skills. More specifically, Heritage is seeking an apartment building with 8-12 units with 2 bedrooms in each unit for a total of approximately 8,000-10,000 square feet to serve a total of 16-24 clients. This property will be located in either Los Angeles County or San Bernardino County, and more precisely, Heritage will be looking for a property in Upland, Montclair, Pomona, Claremont, La Verne, Covina, West Covina or Pasadena.

The HELP II loan will be secured by a first (1st) lien position on the property purchased. Heritage will provide an appraisal of the proposed facility that exhibits a loan-to-value ratio not to exceed 95% before the time of closing.

***Financing Costs*..... 26,500**

| | |
|-----------------------------------|--------------|
| Authority Fees | \$25,000 |
| Estimated Escrow/Title Fees | <u>1,500</u> |

Total Uses of Funds \$2,000,000

II. FINANCIAL STATEMENTS AND ANALYSIS:

Heritage Group Homes, Inc. Statement of Activities (Income Statement)

| | For the Years Ended December 31, | | |
|--|----------------------------------|--------------|--------------|
| | 2021 | 2020 | 2019 |
| Operating Activities | | | |
| Foster care program | \$ 4,587,388 | \$ 4,606,503 | \$ 4,306,988 |
| Mental health program | 1,806,207 | 1,505,486 | - |
| Food program | 72,101 | 62,177 | - |
| Transitional age youth program | 58,467 | - | - |
| Clothing Allowance | 1,105 | 751 | 2,544 |
| Nutrition program | - | - | 45,623 |
| Donations | 24,249 | 277,155 | 224,491 |
| Total operating activities | 6,549,517 | 6,452,072 | 4,579,646 |
| Operating Expenses | | | |
| Salaries & wages | \$ 3,258,278 | \$ 2,695,702 | \$ 2,285,019 |
| Payroll taxes & employee benefits | 383,658 | 316,737 | 285,056 |
| Accounting | 33,044 | 29,504 | 30,556 |
| Advertising | 4,340 | - | - |
| Auto expense | 22,513 | 16,215 | 44,711 |
| Bank charges | 214 | 227 | - |
| Building & equipment | 96,575 | 52,101 | 162,483 |
| Child related costs | 232,344 | 239,214 | - |
| Consultant | 71,795 | 58,055 | 32,151 |
| Contract services | 43,385 | - | 14,867 |
| Depreciation | 134,932 | 116,084 | 101,696 |
| Food | 105,589 | 96,156 | 111,269 |
| In service training | 10,361 | 8,753 | 16,784 |
| Insurance - general | 27,523 | 49,264 | 17,492 |
| Insurance- worker's comp | 33,443 | 47,792 | 40,115 |
| License & fees | 1,995 | 3,899 | 2,769 |
| Membership & subscriptions | 31,548 | 22,077 | 37,232 |
| Office rent & storage | 97,024 | 104,467 | 87,180 |
| Office supplies | 32,868 | 36,630 | 69,914 |
| Postage & delivery | 1,565 | 1,371 | 609 |
| Professional fees | 6,899 | - | - |
| Property taxes | 42,255 | 9,903 | 36,681 |
| Print & publication | - | - | 3,986 |
| Supportive services | - | - | 263,421 |
| Repairs & maintenance | 272,470 | 38,134 | - |
| Telephone | 15,139 | 14,564 | 18,898 |
| Travel | 595 | - | - |
| Utilities | 65,159 | 46,400 | 40,816 |
| Total operating expenses | 5,025,511 | 4,003,249 | 3,703,705 |
| Change in net assets from operating activities | 1,524,006 | 2,448,823 | 875,941 |
| Nonoperating activities | | | |
| Other income | 4,600 | 26,756 | - |
| Loan forgiveness | - | 520,715 | - |
| Interest income (expense) | (14,829) | 19,703 | - |
| Total nonoperating activities | (10,229) | 567,174 | - |
| Change in net assets | 1,513,777 | 3,015,997 | 875,941 |
| Net assets - beginning of the year | 9,069,777 | 5,925,874 | 5,049,933 |
| Prior period adjustment | - | 127,906 | - |
| Net assets - end of the year | \$ 10,583,554 | \$ 9,069,777 | \$ 5,925,874 |

Heritage Group Homes, Inc.
Statements of Financial Position
(Balance Sheet)

| | As of December 31, | | |
|--|---------------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 |
| Assets | | | |
| Current assets | | | |
| Cash | \$ 4,623,620 | \$ 3,925,058 | \$ 2,746,788 |
| Accounts receivable | 665,419 | 710,885 | - |
| Grants receivable | - | - | 451,175 |
| Prepaid expenses | 60,969 | 17,850 | 21,763 |
| Other assets | - | - | 3,600 |
| Total current assets | <u>5,350,008</u> | <u>4,653,793</u> | <u>3,223,326</u> |
| Noncurrent assets | | | |
| Vehicles | 295,231 | 295,231 | - |
| Property and equipment - net | - | - | 175,880 |
| Land & building | 7,055,983 | 4,675,983 | 2,668,972 |
| Less: accumulated depreciation | <u>(524,179)</u> | <u>(389,247)</u> | <u>-</u> |
| Total non-current assets | <u>6,827,035</u> | <u>4,581,967</u> | <u>2,844,852</u> |
| Other assets | | | |
| Lease deposits | - | 3,600 | - |
| Total other assets | <u>-</u> | <u>3,600</u> | <u>-</u> |
| Total assets | <u>12,177,043</u> | <u>9,239,360</u> | <u>6,068,178</u> |
| Liabilities and Net Assets | | | |
| Current liabilities | | | |
| Accounts payable | \$ - | \$ 2,750 | \$ 10,000 |
| Accrued payroll, taxes & related liabilities | 178,180 | 166,833 | 132,304 |
| Note payable - current | 38,632 | - | - |
| Total current liabilities | <u>216,812</u> | <u>169,583</u> | <u>142,304</u> |
| Noncurrent liabilities | | | |
| Note payable | <u>1,376,677</u> | <u>-</u> | <u>-</u> |
| Total long-term liabilities | <u>1,376,677</u> | <u>-</u> | <u>-</u> |
| Total liabilities | <u>1,593,489</u> | <u>169,583</u> | <u>142,304</u> |
| Net assets | | | |
| Without donor restrictions | <u>10,583,554</u> | <u>9,069,777</u> | <u>5,925,874</u> |
| Total net assets | <u>10,583,554</u> | <u>9,069,777</u> | <u>5,925,874</u> |
| Total liabilities and net assets | <u>\$ 12,177,043</u> | <u>\$ 9,239,360</u> | <u>\$ 6,068,178</u> |

| | Proforma | | | |
|-------------------------------------|-------------------------|-------------|-------------|-------------|
| | FYE December 31, | | | |
| | 2021 | 2021 | 2020 | 2019 |
| Debt Service Coverage - Net (x) | 9.51 | 112.18 | N/A | N/A |
| Debt to Unrestricted Net Assets (x) | 0.32 | 0.13 | 0.00 | 0.00 |
| Margin (%) | | 23.27 | 37.95 | 21.32 |
| Current Ratio (x) | | 24.68 | 27.44 | 22.65 |

Financial Discussion

Heritage's income statement exhibits positive gains in net income over the review period.

Heritage's revenue exhibits a positive upward trend, increasing 43% from approximately \$4.6 million in fiscal year (FY) 2019 to approximately \$6.6 million in FY 2021. According to Heritage's management, this increase in revenue is primarily due to the addition of the Mental Health (MH) Program. During the same period, expenses also increased 36% from approximately \$3.7 million in FY 2019 to approximately \$5 million in FY 2021. According to Heritage's management, this increase in expenses was also attributable to the addition of the MH Program as new staff was hired for the program as well as wage increases to retain and attract staff during the COVID-19 pandemic. Additionally, in FY 2021, there were some repairs, maintenance and upgrades done to its facilities in preparation for the Commission on Accreditation of Rehabilitation Facilities accreditation renewal survey and MH Program tours. Overall, revenues outpaced expenses in each fiscal year, resulting in strong positive margins of 21%, 38% and 23% in FYs 2019, 2020 and 2021, respectively.

Since the beginning of the COVID-19 pandemic, it has been harder for Heritage to retain staff and attract new direct care personnel, which has increased salary costs overall. However, the rates of reimbursement also have increased, and the number of referrals has increased by 30%. This has allowed Heritage to expand during the pandemic with the addition of a new six-bed facility and a 12-unit apartment building for the Transitional Age Youth (TAY) Program.

Heritage's balance sheet appears strong with a net pro-forma debt service coverage ratio of 9.51x.

In FY 2019 and FY 2020, Heritage demonstrated no reliance on debt financing, and hence the debt service coverage ratio for FY 2019 and FY 2020 is not applicable. In FY 2021, the debt service coverage ratio was 112.18x as Heritage took on debt to purchase a property, which, according to Heritage's management, was used to further expand services for the TAY Program. With the inclusion of the HELP II loan, the pro-forma FY 2021 debt service coverage ratio is still strong at 9.51x, which exhibits Heritage's ample ability to repay the new debt. Moreover, Heritage had a debt to unrestricted net assets ratio of 0.13x in FY 2021, which demonstrates Heritage's readiness to take on new debt. The pro-forma debt to unrestricted net assets ratio of 0.32x further shows Heritage's strong ability to manage the debt.

Furthermore, Heritage appears to display financial strength in the balance sheet as total assets have doubled over the review period from approximately \$6 million in FY 2019 to approximately \$12.2 million in FY 2021. According to Heritage's management, this increase was mainly due to the addition of the MH Program and the addition of the six-bed facility.

III. UTILIZATION STATISTICS:

Clients Served
Fiscal Year Ended December 31,

| | 2021 | 2020 | 2019 |
|--------|-------------|-------------|-------------|
| Totals | 174 | 121 | 118 |

IV. OUTSTANDING DEBT:

| | <u>Original Amount</u> | <u>Amount Outstanding as of 12/31/2021</u> | <u>Estimated Amount Outstanding after Proposed Financing</u> |
|--------------------------------|----------------------------|--|--|
| EXISTING LONG-TERM DEBT | | | |
| Chase Bank Note | \$1,428,000 | \$1,376,677 | \$1,376,677 |
| PROPOSED NEW DEBT | | | |
| <i>HELP II Loan</i> | | | <u>2,000,000</u> |
| TOTAL DEBT | | <u>\$1,376,677</u> | <u>\$3,376,677</u> |

V. BACKGROUND AND LICENSURE:

Background

Heritage Group Homes, Inc., was founded in 1991 and provides a variety of programs that are designed to serve at-risk children and youth with emotional or behavioral disturbance and their families. Through its programs, Heritage has provided foster youth with intensive mental health treatment services and committed and caring staff at six STRTP facilities. While living at Heritage, youth have access to employment services, education, life skills training, medical and dental assistance, case management, mental health services and substance use treatment, among other services. In addition to the in-house programs that are designed to give clients wholistic care, Heritage offers an after-care program that extends service delivery for up to 12 months after discharge. In this program, youth receive guidance and counseling to help them stay on track with their recovery. Moreover, Heritage staff is available 24/7 to any current or former foster youth and their families to provide support, guidance, information and linkages to services. Through all the programs, Heritage serves more than 170 clients annually.

Licensure, Certification and Accreditation

Heritage is licensed by the California Department of Social Services to operate facilities as Short-Term Residential Treatment Programs. Additionally, all Heritage facilities and the corporate office are certified through Los Angeles County Department of Mental Health for mental health services.

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. HII-334 for a HELP II loan for Heritage Group Homes, Inc., 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.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-334

**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 (Gov. Code, §15430 et seq.) (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, **Heritage Group 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 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. First lien on the real property purchased with HELP II funds;
3. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%;
4. Corporate gross revenue pledge;
5. Executed purchase contract; and
6. 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 and the Deputy Executive Director are 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 that the Executive Director or the Deputy Executive Director deem necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and that have heretofore been approved as to form by the Authority.

Section 5. This resolution is repealed six months from the date of approval.

Date of Approval: _____