

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

Applicant: Fleming & Barnes, Inc., doing business as (dba) Dimondale Adolescent Care Facility (Dimondale) 23860 Hawthorne Blvd., Suite 200 Torrance, CA 90505 Los Angeles County

Loan Amount: \$2,000,000
Loan Term: Up to 20 years
Annual Interest Rate: 2%
Authority Meeting Date: August 25, 2022
Resolution Number: HII-335

Project Site(s): To be determined (Los Angeles County)
Facility Type: Community Care Facility
Eligibility: Government Code Section 15432(d)(13)
Prior Borrower: No

Background: Dimondale is a 501(c)(3) public benefit organization that provides residential services to abused, neglected, and/or at-risk-youth at eight facilities throughout Los Angeles County. Each of its facilities are licensed by the Community Care Licensing division of the State Department of Social Services to operate and maintain Short-Term Residential Therapeutic Programs (STRTP) for children ages 12 – 17.

Use of Proceeds: Loan proceeds will be used to finance the purchase of one or more properties to expand residential care facilities located in Los Angeles County. Each property will be required be financed separately, and each loan will be required to satisfy the loan financing requirements set forth in the resolution. The collective amount of all the HELP II loans authorized by this resolution cannot exceed \$2,000,000.

Financing Structure:

- First lien on each real property purchased with HELP II funds
- 20-year, two percent (2%) fixed rate for each loan
- 240 equal monthly payments of approximately \$10,118 (annual payments of approximately \$121,412)
- A current appraisal for each property that exhibits a loan-to-value ratio not to exceed 95%
- Corporate gross revenue pledge
- Executed purchase contract for each loan
- Verification of borrower funds to close escrow

Financial Overview: Dimondale’s robust growth in total revenue is supported by growing revenue from group home income. Dimondale’s balance sheet continues to grow and exhibits a solid pro-forma FY 2020 net debt service coverage ratio of 5.95x.

<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	30,000	Financing costs	30,000
Total Estimated Sources	\$2,030,000	Total Estimated Uses	\$2,030,000

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 approval of Resolution Number HII-335, in an amount not to exceed \$2,000,000 for Fleming & Barnes, Inc., dba Dimondale Adolescent Care Facility, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, concurs with the Authority staff’s recommendation.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

Dimondale is requesting a HELP II loan to purchase one or more properties located in Los Angeles County to be used as licensed residential care facilities. Dimondale intends to use the facilities to relocate some of its leased properties to expand services and to better serve its clients. Dimondale has determined it would be beneficial to purchase property as the costs of leasing continue to increase. Dimondale will be able to use the savings from the purchased properties to add more treatment activities and the new properties will provide additional space to accommodate private counseling treatment rooms for Dimondale’s mental health program. This expansion falls in line with its mission, which is to provide a safe, warm, culturally competent, and homelike environment with the highest level of support and empathy for all children and non-minor dependents in the community.

***Purchase real property* \$2,000,000**

Dimondale plans to purchase one or more residential properties that are at least 1,500 square feet, with four to five beds, and two or more bathrooms. Dimondale anticipates purchasing one property in the South Bay area of Los Angeles County in the price range of \$750,000 to \$1.1 million. Dimondale also anticipates purchasing two or three properties in the cities of Lancaster and/or Palmdale, where they currently lease four properties, in the price range of \$400,000 to \$475,000.

The HELP II loan will be secured by a first (1st) lien position on each individual property purchased. Additionally, Dimondale will provide an appraisal of each proposed property, each exhibiting a loan-to-value ratio not to exceed 95% before the time of closing as well as an assurance of meeting the other security terms and conditions set forth in the resolution.

***Financing costs* 30,000**
 Authority Fees \$25,000
 Estimated Escrow/Title Fees 5,000

***Total Estimated Uses of Funds*..... \$2,030,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

The following analysis displays fiscal year (FY) 2020 as the most current audited financial statements. Staff and TAP International have seen the preliminary FY 2021 financials, which do not raise any concerns at this time.

Fleming & Barnes, Inc. dba Dimondale Adolescent Care Facility
Statement of Activities
(Income Statement)

	For the Year Ended December 31,		
	2020	2019	2018
Revenues & Support:			
Group home	\$ 7,211,963	\$ 3,592,197	\$ 3,311,025
Other income	94,382	43,423	29,702
Total revenues & support	<u>7,306,345</u>	<u>3,635,620</u>	<u>3,340,727</u>
Operating Expenses:			
Salaries & wages	3,873,568	1,965,956	1,707,601
Taxes & fringe benefits	430,361	405,613	394,097
Total salaries & fringe benefits	<u>4,303,929</u>	<u>2,371,569</u>	<u>2,101,698</u>
Accounting - services	54,300	46,382	47,764
Advertising	6,874	3,395	4,190
Auto expenses	118,178	92,998	79,574
Bank charges	108	259	95
Building repairs & maintenance	227,091	86,442	98,395
Contractual services	52,095	94,400	110,800
Consultant	57,045	1,273	825
Food	217,805	133,228	112,406
In service training	-	29,845	30,718
Insurance - general	36,364	64,609	56,295
Insurance - workers compensation	196,317	-	-
Interest	6,929	2,630	2,923
Membership & subscriptions	53,384	14,350	5,539
Miscellaneous	-	78	-
Office supplies	91,923	29,459	25,215
Office rent & storage	54,985	41,431	40,725
Postage	2,452	1,844	1,586
Print & publication	121	2,866	5,643
Rent	303,700	209,718	202,423
Supportive services	477,308	211,964	197,527
Taxes & licenses	4,438	6,032	5,879
Telephone	20,744	23,633	26,183
Travel	2,158	6,141	8,378
Utilities	71,208	33,635	28,386
Total operating expenses before depreciation	<u>6,359,456</u>	<u>3,508,181</u>	<u>3,193,167</u>
Depreciation	56,169	33,751	24,588
Total operating expenses	<u>6,415,625</u>	<u>3,541,932</u>	<u>3,217,755</u>
Excess of revenues & support over operating expenses	890,720	93,688	122,972
Net assets without donor restrictions - beginning of the year	839,784	885,364	752,392
Excess of fair value in acquisition	459,409	-	-
Prior period adjustment	-	(139,268)	10,000
Net assets without donor restrictions - end of the year	<u>2,189,913</u>	<u>839,784</u>	<u>885,364</u>

Fleming & Barnes, Inc. dba Dimondale Adolescent Care Facility
Statement of Financial Position
(Balance Sheet)

	As of December 31,		
	2020	2019	2018
Assets			
Current Assets			
Cash	\$ 2,559,194	\$ 606,735	\$ 758,986
Grants receivable	598,135	366,285	310,301
Other receivables	536	536	9,513
Deposits	-	-	16,000
Total current assets	<u>3,157,865</u>	<u>973,556</u>	<u>1,094,800</u>
Noncurrent Assets			
Deposits	25,000	25,000	-
Plant and equipment, net	256,586	162,520	64,759
Total noncurrent assets	<u>281,586</u>	<u>187,520</u>	<u>64,759</u>
Total assets	<u>\$ 3,439,451</u>	<u>\$ 1,161,076</u>	<u>\$ 1,159,559</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts payable	\$ 27,825	\$ 10,933	\$ 16,592
DSS overpayment	403,821	10,373	100,132
Line of credit	-	-	25
Payroll & related liabilities	203,863	147,011	86,816
Miscellaneous liabilities	1,870	-	422
Vehicle loan payable - current	68,619	32,006	20,381
Total current liabilities	<u>705,998</u>	<u>200,323</u>	<u>224,368</u>
Noncurrent Liabilities			
PPP Funding loan	411,239	-	-
Officer's loan payable	-	12,320	12,320
Vehicle loan payable-non-current	132,300	108,649	37,507
Total noncurrent liabilities	<u>543,539</u>	<u>120,969</u>	<u>49,827</u>
Total liabilities	<u>1,249,537</u>	<u>321,292</u>	<u>274,195</u>
Net Assets			
Without donor restriction	2,189,913	839,784	885,364
Total net assets	<u>2,189,913</u>	<u>839,784</u>	<u>885,364</u>
Total liabilities and net assets	<u>\$ 3,439,450</u>	<u>\$ 1,161,076</u>	<u>\$ 1,159,559</u>

Financial Ratios:

	Proforma ^(a)			
	FYE 12/31/2020	2020	2019	2018
Debt Service Coverage - Net (x)	5.95	24.50	5.65	7.23
Debt to Unrestricted Net Assets (x)	1.01	0.28	0.18	0.08
Operating Margin (%)		12.19	2.58	3.68
Current Ratio (x)		4.47	4.86	4.88

^(a) Recalculates FY 2020 audited results to include the impact of this proposed financing.

Financial Discussion

Dimondale's robust growth in total revenue is supported by growing revenue from group home income.

Total revenues and support have grown from \$3.3 million in FY 2018 to approximately \$7.4 million in FY 2020, a 118.7% increase. According to Dimondale's management, this growth is the result of expanded capacity and increased contract rates. In January 2020, Dimondale expanded its services and capacity with the acquisition of another group home, increasing total beds from 30 to 48. At the same time, Dimondale received approval for its STRTP license. Through the State of California's Continuum of Care Reform, facilities categorized as group homes were required to transition to an STRTP. The new STRTP license brought an increased focus on mental health and new regulations that require more intensive services, which, in turn, require increased staffing and other operating costs. To offset the increased costs associated with the new regulations, contract rates for STRTPs also increased. Dimondale's monthly per client contract rate as a group home was \$9,535 in FY 2018 and \$10,324 in FY 2019. Under the new STRTP license, Dimondale's per client contract rate increased to \$13,532 in FY 2020.

Total operating expenses for Dimondale increased from approximately \$3.2 million in FY 2018 to nearly \$6.4 million in FY 2020, an increase of 99.4%. With the additional beds from the previously mentioned acquisition, Dimondale's expenses increased, driven by hiring more staff to provide the more intensive STRTP services.

Dimondale did not experience a significant financial impact from the COVID-19 pandemic as it did not lose the placement of any of its clients. Dimondale did experience additional payroll costs as it provided incentives and/or bonuses to all staff who maintained their attendance. Dimondale received a Paycheck Protection Program loan for about \$411,000, which helped offset the increased expenses and was forgiven in February 2021. Furthermore, Dimondale received a grant from the State of California for payroll and supplies reimbursement for about \$935,000 in calendar year 2022.

Dimondale's balance sheet continues to grow and exhibits a solid pro-forma FY 2020 net debt service coverage ratio of 5.95x.

Dimondale's balance sheet shows an increase of 196.6% in total assets from approximately \$1.2 million in FY 2018 to nearly \$3.4 million in FY 2020. Dimondale appears to display financial strength with strong debt service coverage ratios of 24.50x, 5.65x, and 7.23x for FY 2020, FY 2019, and FY 2018, respectively. Dimondale's pro-forma FY 2020 debt service coverage ratio remains strong at 5.95x with the new debt. Dimondale's balance sheet and income statement indicate Dimondale's capability of carrying the additional debt.

Dimondale's expansion is reflected by consistent growth in plant and equipment, which increased from approximately \$65,000 in FY 2018 to nearly \$257,000 in FY 2020. The increase is due to procuring computers for all mental health program staff and copy machines at its existing facilities, and it purchased two vehicles per facility in case of an emergency for a total of 15 vehicles.

III. UTILIZATION STATISTICS

**Clients Served
Fiscal Year Ending December 31,**

	2020	2019	2018
Totals	199	183	155

IV. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of December 31, 2020</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
Vehicle Loan	\$ 352,000	\$ 201,000	\$ 201,000
PROPOSED NEW DEBT			
<i>HELP II Loan</i>			2,000,000
- TOTAL DEBT		<u>\$ 201,000</u>	<u>\$ 2,201,000</u>

V. BACKGROUND AND LICENSURE

Background

Fleming & Barnes, Inc., is a 501(c)(3) public benefit organization doing business as Dimondale Adolescent Care Facility and was founded on November 16, 2000. Dimondale provides residential services to abused, neglected, and/or at-risk-youth at eight facilities throughout Los Angeles County. For over 20 years, it has worked closely with the Los Angeles County Department of Children and Family Services as well as Los Angeles County Juvenile Probation.

Dimondale provides STRTP services through its eight facilities located throughout Southern California, including Long Beach, Carson, Hawthorne, Gardena, Lancaster, and Palmdale for a total of a 48-bed capacity. Dimondale accepts clients from all 58 counties in California and 90% to 95% of its clients are from Los Angeles County. Dimondale has contracts with Los Angeles County Department of Children and Family Services and Los Angeles County Juvenile Probation.

Licensure and Accreditation

Each of Dimondale's facilities is licensed by the State Department of Social Services to operate as STRTPs. Also, all Dimondale facilities are certified through the State Department of Health Care Services to provide mental health services.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. HII-335, in an amount not to exceed \$2,000,000 for Fleming & Barnes, Inc. dba Dimondale Adolescent Care Facility, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, concurs with the Authority's staff recommendation.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)
Resolution Number HII-335

RESOLUTION APPROVING EXECUTION AND DELIVERY OF
HELP II 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 HELP II (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Fleming & Barnes, Inc., doing business as Dimondale Adolescent Care Facility** (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 a HELP II loan to the Borrower in a collective amount not to exceed **\$2,000,000** for individual terms not to exceed **20 years** for each property purchased with the overall HELP II loan for the purposes described in the application filed with the Authority (the “Project”), 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. First lien on each real property purchased with HELP II funds;
2. 20-year, two percent (2%) fixed-rate for each loan;
3. A current appraisal for each property that exhibits a loan-to-value ratio not to exceed 95%;
4. Corporate gross revenue pledge;
5. Executed purchase contract for each property; 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 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 those amounts.

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 deems necessary or advisable 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: _____