

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

<p>Applicant: Fred Brown’s Recovery Services, Inc. (FBRS) 270 West 14th Street San Pedro, CA 90731 Los Angeles County</p>	<p>Loan Amount: \$1,532,000 Loan Term: 20-year fixed Annual Interest Rate: 2% Authority Meeting Date: September 29, 2022 Resolution Number: HII-338</p>
<p>Project Sites: 852 W. 19th Street, San Pedro, CA 90731 To Be Determined (Los Angeles County)</p>	
<p>Facility Type: Drug and Alcohol Recovery and Clinic</p>	
<p>Eligibility: Government Code Section 15432(d)(13)</p>	
<p>Prior HELP II Borrower: Yes (April 2022)</p>	

Background: FBRS opened in 1983 as a six-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 purchase one or more residential buildings, which will be used to increase the quality and quantity of its residential treatment programs for alcohol and drug abuse.

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 \$7,750 (annual payments of approximately \$93,000)
- A current appraisal for each property that exhibits a loan-to-value ratio not to exceed 95%
- Executed purchase contract for each loan
- Corporate gross revenue pledge
- Verification of borrower funds to close escrow

Financial Overview: FBRS’s income statement appears to exhibit strong operating results and increased net assets during the review period. FBRS appears to display a solid balance sheet, with a pro-forma net debt service coverage ratio of 2.29x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loans	\$ 1,532,000	Purchase real property	\$ 1,590,850
Borrower funds	<u>80,000</u>	Financing costs	<u>21,150</u>
Total Estimated Sources	<u>\$ 1,612,000</u>	Total Estimated Uses	<u>\$ 1,612,000</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 Number HII-338, in an amount not to exceed \$1,532,000 for Fred Brown’s Recovery Services, Inc., 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

FBRS is requesting one or more HELP II loans to finance the purchase of one or more properties. This financing will assist FBRS in accomplishing its strategic planning objective to increase the quality and quantity of residential treatment services in the San Pedro area. FBRS’s projects aim to expand capacity and enhance quality of Recovery Bridge Housing, while improving access to outpatient and case management services.

Purchase real property **\$1,590,850**

852 W. 19th Street, San Pedro, CA 90731

FBRS will use approximately \$650,000 in loan proceeds to purchase a home located at 852 W. 19th Street in San Pedro. The two-bedroom home is located in a central San Pedro neighborhood and is adjacent to FBRS’s 19th Street Residential Treatment Program, which currently houses 12 beds and has been in operation for more than 25 years. FBRS expects that this purchase will allow for the expansion of up to an additional six residential treatment beds and/or low-level withdrawal management services. In addition to the expanded services, FBRS projects that the home will allow for enhanced quality of existing services, provide for future upgrades and expansion opportunities on the large lot, and avoid the rising costs of short-term leases, while also building equity for FBRS.

Pre-approval to Purchase Real Property

FBRS is also requesting a pre-approval to purchase real property located in the San Pedro area of Los Angeles County. FBRS is estimating to use approximately \$882,000 in loan proceeds to purchase additional property to expand its Recovery Bridge Housing, expand residential treatment services and/or provide low-level withdrawal management, and possibly transfer service contracts from a more expensive leased property FBRS estimates that this purchase will allow an additional six beds to be utilized under its residential treatment programs.

Each HELP II loan will be secured by a first (1st) lien position on each real property purchased with HELP II funds. An appraisal acceptable to the Authority will need to be completed for each property prior to closing to reflect a loan-to-value ratio less than 95% as well as an assurance of meeting the other security terms and conditions set forth in the resolution.

Financing Costs **21,150**

 Authority Fees \$19,150

 Estimated Escrow/Title Fees 2,000

Total Uses of Funds **\$1,612,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

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

	For the Years Ended July 31,		
	2021	2020	2019
Public Support and Revenue			
Patient income	\$ 5,002,828	\$ 4,243,212	\$ 3,445,201
Grant income	420,065	270,416	-
Other income	4,276	1,051	3,366
Total public support and revenue	<u>5,427,169</u>	<u>4,514,679</u>	<u>3,448,567</u>
Expenses			
Salaries	2,618,772	2,186,327	1,473,403
Bank charges & 401K fees	2,229	405	11,969
Depreciation	25,811	19,090	17,928
DMC contract fees	-	-	48,417
Employee benefits	62,680	90,340	78,461
Gifts	-	1,219	1,525
Groceries & household	121,872	113,268	76,531
Insurance	127,412	98,007	113,260
Interest	3,250	-	-
Legal and professional	82,020	41,097	68,749
Licenses & fees	16,879	18,121	14,776
Occupancy	988,214	955,960	747,011
Office expenses	-	18,637	22,300
Payroll taxes	247,972	196,504	134,125
Miscellaneous	12,845	17,710	6,343
Payroll service	33,066	25,513	-
Repairs and maintenance	179,528	237,674	213,017
Supplies	202,088	156,234	44,128
Training	8,561	-	-
Transportation	61,079	69,985	75,694
Telephone & communications	51,726	-	-
Travel	125	440	116
Utilities	223,781	222,819	208,208
Total expenses	<u>5,069,910</u>	<u>4,469,350</u>	<u>3,355,961</u>
Other Income			
Interest income	281	-	-
Payroll protection forgiveness	346,022	-	-
Total other income	<u>346,303</u>	<u>-</u>	<u>-</u>
Increase in net assets without donor restrictions	703,562	45,329	92,606
Net position - beginning of year	<u>1,346,115</u>	<u>1,300,786</u>	<u>1,208,180</u>
Net position - end of year	<u>\$ 2,049,677</u>	<u>\$ 1,346,115</u>	<u>\$ 1,300,786</u>

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

	As of July 31,		
	2021	2020	2019
Assets			
Current assets			
Cash and cash equivalents	\$ 1,344,883	\$ 1,426,614	\$ 715,297
Accounts receivable	1,002,188	472,205	571,874
Total current assets	<u>2,347,071</u>	<u>1,898,819</u>	<u>1,287,171</u>
Fixed assets			
Furniture, fixtures and equipment	1,148,730	340,609	317,607
Less: Accumulated depreciation	(290,676)	(264,864)	(245,775)
Total fixed assets	<u>858,054</u>	<u>75,745</u>	<u>71,832</u>
Other assets	39,610	33,850	14,900
Total assets	<u>\$ 3,244,735</u>	<u>\$ 2,008,414</u>	<u>\$ 1,373,903</u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable & accrued expenses	\$ 222,498	\$ 166,377	\$ 73,117
EIDL loan	149,900	149,900	-
Payroll protection program advance	346,022	346,022	-
Current portion - Building Loan	11,639	-	-
Total current liabilities	<u>730,059</u>	<u>662,299</u>	<u>73,117</u>
Long term liabilities			
Building Loan	464,999	-	-
Total liabilities	<u>1,195,058</u>	<u>662,299</u>	<u>73,117</u>
Net assets			
Without donor restrictions	2,049,677	1,346,115	1,300,786
Total liabilities and net assets	<u>\$ 3,244,735</u>	<u>\$ 2,008,414</u>	<u>\$ 1,373,903</u>

	Proforma			
	FYE July 31, 2021	2021	2020	2019
Debt Service Coverage - Net (x)	2.29	4.78	N/A	N/A
Debt to Unrestricted Net Assets (x)	1.05	0.47	0.37	0.00
Margin (%)		6.58	1.00	2.69
Current Ratio (x)		3.21	2.87	17.60

Financial Discussion

FBRS's income statement appears to exhibit strong operating results and increased net assets during the review period.

FBRS appears to exhibit strong operating margins over the review period, most recently posting a margin of approximately 6.6% in fiscal year (FY) 2021. Total revenues grew from approximately \$3.4 million in FY 2019 to just over \$5.4 million in FY 2021, an overall increase of 57%. It appears that much of this increase was caused by increases in patient income, which increased from \$3.4 million in FY 2019 to approximately \$5 million in FY 2021. FBRS's management attributes this increase to the opening of its outpatient clinic and four additional transitional homes. Total expenses also increased over the review period by 51%, which appears to be in large part caused by an increase in salaries, increasing from just under \$1.5 million in FY 2019 to approximately \$2.6 million in FY 2021. FBRS's management explains that the increase was due to the addition of clinical and support staff for its newly opened clinic, as well as expansion of its transitional housing.

Since the beginning of the COVID-19 pandemic, FBRS's costs of providing care increased due to various hardships, such as staffing shortages, patient no-shows, quarantines that resulted in empty beds, supply chain disruptions for necessary cleaning supplies, and extra costs associated with personal protective equipment supplies and distribution. To help with these increased costs, FBRS received two Paycheck Protection Program (PPP) loans in the amount of \$346,022 each in FY 2020 and FY 2021, and an Economic Injury Disaster Loan (EIDL) in the amount of \$149,900 in FY 2020, which was later amended to \$760,000 in April 2022 to meet the financial obligations and operating expenses relating to adverse circumstances created by the COVID-19 pandemic. Both PPP loans have since been forgiven, and the EIDL remains outstanding.

FBRS appears to display a solid balance sheet, with a pro-forma net debt service coverage ratio of 2.29x.

In FY 2019 and FY 2020, FBRS demonstrated no reliance on debt financing. However, with the acquisition of the EIDL and PPP loans, FBRS posted a strong net debt service coverage ratio of 4.78x in FY 2021. Considering forgiveness of the PPP loans, the recently approved HELP II loan in April 2022, and this proposed new HELP II loan, it appears that FBRS will be able to comfortably take on its proposed new debts, displaying a pro-forma FY 2021 net debt service coverage ratio of 2.29x. In FY 2021, FBRS exhibited a strong debt to unrestricted net assets ratio of 0.47x. With the two HELP II loans, FBRS's debt to unrestricted net assets ratio increases to 1.05x. Though slightly leveraged, FBRS's ability to repay its debt obligations is not affected as its other financial ratios remain strong.

FBRS's indicators of financial liquidity appear to be strong, displaying a current ratio of 3.21x for FY 2021. It appears that the strength of the current ratio can be attributed to a strong growth in cash and cash equivalents, growing from approximately \$715,000 in FY 2019 to over \$1.3 million in FY 2021. FBRS's management explains that this growth in cash and cash equivalents can be correlated to increased government grants and the forgiven PPP loans that assisted in employee retention, COVID-19 pandemic related expenses, and the recovery of lost revenue.

III. UTILIZATION STATISTICS

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

	2021	2020	2019
Totals	451 / (1,075)	423 / (929)	406 / (1,071)

IV. OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding As of July 31, 2021</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<i>-EXISTING LONG-TERM DEBT:</i>			
EIDL (2020) ¹	\$ 149,900	\$ 149,900	\$ 760,000
HELP II Loan (2022) ²	468,000		468,000
<i>-PROPOSED NEW DEBT</i>			
<i>HELP II Loan (2022)</i>			\$ 1,532,000
<i>-TOTAL DEBT</i>		<u>\$ 149,900</u>	<u>\$ 2,760,000</u>

¹ The EIDL was amended in April 2022, increasing the amount from \$149,900 to \$760,000.

² FBRS was approved for a HELP II loan in April 2022. The loan closed in July 2022.

V. BACKGROUND AND LICENSURE

Background

FBRS 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, case management, transitional housing, and employment training to persons ages 18 and over. Treatment may also include medically assisted treatment 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 external agencies that provide 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 State Department of Health Care Services to operate and maintain an alcohol and/or drug program. This license and certification extend to outpatient and intensive outpatient services. Additionally, FBRS has current contracts with the Los Angeles County Department of Public Health for inpatient and outpatient treatment along with transitional housing.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution Number HII-338, in an amount not to exceed \$1,532,000 for Fred Brown's Recovery Services, Inc., subject to the terms and conditions in the resolution. TAP International, Inc., the Authority's financial analyst, concurs with the Authority staff's recommendation.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)
Resolution Number HII-338

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, **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 a HELP II loan to the Borrower in a collective amount not to exceed **\$1,532,000** 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 and 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 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 or the Deputy Executive Director deem 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: _____