

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

Applicant: Transitions – Mental Health Association (Transitions) 784 High Street San Luis Obispo, CA 93401 San Luis Obispo County Project Site: 6380 Edna Road, San Luis Obispo, California 93401 Facility Type: Short-Term Residential Therapeutic Program Eligibility: Government Code Section 15432(d)(13) Prior Borrower: Yes (January 2012)	Loan Amount: \$1,840,000 Loan Term: 20 years Annual Interest Rate: 2% fixed Authority Meeting Date: July 27, 2023 Resolution Number: HII-346
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Background: Transitions is a private, 501(c)(3), community-based agency established in 1979 serving adults and youth in San Luis Obispo and Northern Santa Barbara counties, who are living with mental illness. Transitions’ mission is to overcome stigma and to achieve recovery and wellness for people with mental illness by offering housing, employment, community, and family support services. In fiscal year (FY) 2022, Transitions served over 5,500 mental health patients and families and reached over 12,000 local contacts to educate the community about the treatment and recovery options for mental illness.

Use of Proceeds: Loan proceeds will be used to purchase a larger residence that offers space for private spaces for staff offices, one-on-one therapy sessions, and recreational flexibility.

Financing Structure:

- First lien on real property located at 6380 Edna Road, San Luis Obispo, CA 93401
- 20-year, two percent (2%) fixed rate loan
- 240 equal monthly payments of approximately \$9,308 (annual payments of approximately \$111,699)
- Executed purchase contract
- 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: Transitions’ income statement appears to exhibit increasing revenues in each year of the review period. Transitions appears to display a solid balance sheet with a pro-forma FY 2022 net debt service coverage ratio of 3.4x.

Estimated Sources of Funds:

HELP II loan	\$	1,840,000
Applicant funds		903,000
Total Estimated Sources	\$	<u>2,743,000</u>

Estimated Uses of Funds:

Purchase of real property	\$	2,720,000
Financing costs		23,000
Total Estimated Uses	\$	<u>2,743,000</u>

Due Diligence: Staff has confirmed the following documentation provided by Transitions 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-346, in an amount not to exceed \$1,840,000 for Transitions – Mental Health Association, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, concurs with the Authority’s staff recommendation.

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

Transitions is requesting a HELP II loan to purchase a larger residential property in order to relocate its Youth Treatment Program (YTP). The YTP assists local youth, who require a safe, trauma-informed, restorative, and structured living environment to support their mental health recovery by offering specialized services like family and group therapy, tutoring from a skilled and empathetic staff, dental and medical services, and recreation. The current facility is a restored Victorian single-family residence with six-bedrooms, three-bathrooms, and has approximately 2,800 square feet of living area, on a 7,760 square-foot lot. However, the facility has become too small for the program and is located in a crowded, urban environment that does not offer the opportunity for expansion to accommodate the staff and services Transitions provides. Currently, only six clients are offered assistance at this facility.

Purchase of real property..... \$2,720,000

Transitions intends to purchase a home with eight bedrooms and five bathrooms that is approximately 4,600 square feet on a 4.5-acre lot. Transitions then plans to remodel and improve the property to satisfy licensing and safety requirements using its own funds. Once completed, the new home will provide essential private spaces for one-on-one therapy sessions, staff offices, and greater recreational options for nine mental health clients.

The HELP II loan will be secured by a first (1st) lien position on 6380 Edna Road in San Luis Obispo. Additionally, Transitions will provide an appraisal of the real property that exhibits 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 25,000

Authority Fees \$23,000

Estimated Escrow/Title Fees 2,000

Total Estimated Uses of Funds \$2,745,000

II. FINANCIAL STATEMENTS AND ANALYSIS

Transitions - Mental Health Association Consolidated Statement of Activities (Income Statement)

	For the Years Ended June 30,		
	2022	2021	2020
Revenue and support:			
Federal grants	\$ 1,992,721	\$ 1,582,225	\$ 1,383,301
State and local grants	195,289	161,831	138,215
Contract income	10,364,155	10,812,373	11,217,478
Client rents	1,553,963	1,394,314	1,217,037
Contributions	494,192	262,521	285,938
Fundraising events, net of direct costs	48,572	26,616	27,350
Interest income	797	1,283	1,381
Gain on extinguishment of debt	702,965	-	-
Other revenue	101,903	44,488	15,237
Nursery revenue, net of cost of goods sold	297,745	368,095	258,737
Total revenues and support	15,752,302	14,653,746	14,544,674
Net assets released from restrictions	241,573	109,747	394,870
Expenses:			
Advertising and pre-employment	12,918	14,911	9,705
Client expenses	256,061	259,973	267,089
Computer and information technology	127,265	163,801	108,589
Contracted employees	134,865	219,864	33,778
Cost of goods sold	309,429	-	-
COVID-19 expenses	35,667	-	-
Credit card fees	15,292	12,247	12,149
Depreciation and amortization	447,477	430,461	443,422
Dues and subscriptions	102,171	63,751	62,365
Fundraising	58,206	917	10,591
Furniture and equipment	49,400	48,526	248,752
Honorarium	-	-	18,151
Insurance	156,310	110,257	99,900
Interest	199,860	173,137	173,416
Marketing and public relations	11,842	25,715	23,426
Occupancy fee	291,940	107,639	111,700
Office supplies	97,293	105,438	139,113
Other expenses	41,458	39,349	48,080
Postage and printing	20,122	35,432	37,195
Professional fees	491,939	331,269	312,464
Program supplies	71,662	89,036	114,283
Rent	1,642,781	1,656,806	1,607,977
Rent subsidies	392	3,141	8,073
Repairs and maintenance	150,281	199,416	165,107
Salaries, wages, and related expenses	9,713,212	9,875,894	10,056,841
Staff development and training	71,256	85,119	101,897
Stipends	7,257	10,813	-
Taxes and licenses	55,686	2,693	26,839
Telephone	179,097	177,546	165,176
Transportation	182,282	218,713	274,206
Utilities	292,159	283,595	244,981
Total expenses by function	15,225,580	14,745,459	14,925,265
Cost of goods sold	(309,429)	-	-
Direct costs of fundraising	(1,991)	(917)	(16,507)
Total expenses	14,914,160	14,744,542	14,908,758
Change in net assets	1,079,715	18,951	30,786
Net assets - beginning of the year	5,662,826	5,643,875	5,613,089
Net assets - end of year	\$ 6,742,541	\$ 5,662,826	\$ 5,643,875

Transitions - Mental Health Association
Consolidated Statement of Financial Position
(Balance Sheet)

	As of June 30,		
	2022	2021	2020
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,048,142	\$ 2,573,621	\$ 2,035,656
Grants receivable, net of allowance	2,201,674	2,119,656	2,457,741
Promises to give, current portion	500	19,872	26,750
Accounts receivable	26,766	22,096	24,240
Inventories	95,632	107,545	110,516
Prepaid expenses	406,172	322,038	312,529
Total current assets	4,778,886	5,164,828	4,967,432
Other assets:			
Property and equipment	11,946,385	10,778,665	10,440,684
Promises to give, net of allowance and current portion	-	-	19,484
Total assets	<u>\$ 16,725,271</u>	<u>\$ 15,943,493</u>	<u>\$ 15,427,600</u>
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	\$ 90,543	\$ 254,309	\$ 241,413
Accrued payroll and related expenses	381,047	411,019	372,766
Accrued vacation	359,797	375,184	377,560
Accrued unemployment insurance	-	48,220	121,868
Other accrued liabilities	129,244	195,300	188,879
Deferred revenue	121,014	30,033	1,658
Notes payable, current portion	360,264	202,334	186,769
Total current liabilities	<u>1,441,909</u>	<u>1,516,399</u>	<u>1,490,913</u>
Long-term liabilities:			
Notes payable, net of current portion	4,936,125	4,444,303	4,101,290
Paycheck Protection Program loan	-	702,965	702,965
Total long-term liabilities	<u>4,936,125</u>	<u>5,147,268</u>	<u>4,804,255</u>
Total liabilities	<u>6,378,034</u>	<u>6,663,667</u>	<u>6,295,168</u>
Net assets:			
Without donor restrictions	6,742,541	5,662,826	5,643,875
With donor restrictions	3,604,696	3,617,000	3,488,557
Total net assets	<u>10,347,237</u>	<u>9,279,826</u>	<u>9,132,432</u>
Total liabilities and net assets	<u>\$ 16,725,271</u>	<u>\$ 15,943,493</u>	<u>\$ 15,427,600</u>

	Proforma^(a)			
	FYE 6/30/2022	2022	2021	2020
Debt Service Coverage - Net (x)	3.4	4.3	1.7	1.7
Debt to Unrestricted Net Assets (x)	1.1	0.8	0.9	0.9
Margin (%)		6.8	0.1	0.2
Current Ratio (x)		3.3	3.4	3.3

^(a) Recalculates FY 2022 audited results to include the impact of this proposed financing.

Financial Discussion

Transitions' income statement appears to exhibit increasing revenues in each year of the review period.

Transitions appears to exhibit positive margins over the review period, most recently posting a margin of approximately 6.8% in fiscal year (FY) 2022. Total revenues grew from approximately \$14.5 million in FY 2020 to nearly \$15.8 million in FY 2022, primarily due to a Paycheck Protection Program (PPP) loan of about \$700,000, which was reported as a gain on extinguishment of debt in FY 2022 as it was fully forgiven. Transitions' largest source of revenue, contract income, decreased about 7.6%, from approximately \$11.2 million in FY 2020 to nearly \$10.4 million in FY 2022. According to Transitions' management, contract income decreased due to the loss of a contract with Santa Barbara County that funded the Lompoc Assertive Community Treatment program. However, the decreases in contract income were offset by increases in both federal grants and client rents, which increased about 44.1% and 27.7%, respectively, over the same period. Transitions' management explained that it received a number of new grants to support its programs, including a COVID-19-related telehealth grant. Transitions also received an increase to its Aid to Families with Dependent Children (AFDC) rates, which allowed Transitions to increase rental income without a corresponding increase in rent expenses.

Total expenses increased at a slow, 1.2% rate during the review period. Salaries, wages, and related expenses decreased from approximately \$10.1 million in FY 2020 to approximately \$9.7 million in FY 2022. According to Transitions' management, the contract for its Lompoc Act Program from Santa Barbara County was significantly underbid by and awarded to Merakey of Pennsylvania (Merakey). After winning the bid, Merakey hired Transitions' Lompoc Act staff to perform the same services, which resulted in the yearly decline in Transitions' salaries, wages, and related expenses.

From the onset of the COVID-19 pandemic, Transitions experienced delays in providing services to its clients and incurred additional costs to maintain safety in its facilities. No COVID-19 expenses were reported in FY 2020 nor FY 2021 since all COVID-19-related expenses were covered by donations and emergency grants.

Transitions appears to display a solid balance sheet, with a pro-forma FY 2022 net debt service coverage ratio of 3.4x.

Over the three-year review period, Transitions appears to have demonstrated an increasing ability to repay its debt, as demonstrated with a net debt service coverage ratio of 1.7x in FY 2020 and FY 2021, then strengthening to 4.3x in FY 2022. With the new HELP II loan, Transitions' pro-forma FY 2022 net debt service coverage ratio decreases to 3.4x, demonstrating a solid ability to continue repaying its debt.

Transitions' debt-to-net-assets ratio remained stable at 0.9x from FY 2020 to FY 2021, then reduced to 0.8x in FY 2022. The proforma debt-to-net assets ratio shows an increase to 1.1x. While the ratios show Transitions has carried an elevated amount of debt, it is important to note that approximately \$3 million of the notes payable, which total over \$4.9 million, will likely be forgiven as Transitions continues to use its facilities according to the provisions of the governmental funding contracts that guarantees low-income housing in the community.

Transitions' indicators of financial liquidity appear to be strong, posting a current ratio of 3.3x in FY 2022. The strong ratios are attributed to their steady cash and cash equivalents, which were just over \$2 million in FY 2020, nearly \$2.6 million in FY 2021, and about \$2 million in FY 2022.

III. UTILIZATION STATISTICS

Clients Served / Patient Visits Fiscal Year Ending June 30,

	2022	2021	2020
Totals	6,136 / 19,576	5,883 / 17,791	5,702 / 18,007

IV. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of June 30, 2022	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT			
HELP II loan (2012)	\$ 518,000	\$ 193,263	\$ 193,263
Various notes payable (property)	NA	5,220,544	5,220,544
Various notes payable (vehicle)	NA	75,845	75,845
PROPOSED NEW DEBT			
<i>HELP II loan (2023)</i>			1,840,000
TOTAL DEBT		\$ 5,489,652.00	\$ 7,329,652

V. BACKGROUND AND LICENSURE

Background

Transitions–Mental Health Association is a private, 501(c)(3) non-profit, community-based agency established in 1979, serving adults and youth in San Luis Obispo and Northern Santa Barbara counties, who are living with mental illness. Transitions' mission is to overcome stigma and to achieve recovery and wellness for people with mental illness by offering housing, employment, and community and family support services. Over a third of Transitions' staff have previously experienced mental illness and assist in areas of mental health advocacy, homeless outreach, accounting, retail sales, peer assistant, and program management.

Transitions' "Housing Now" program is dedicated to identifying and assisting the 50 most vulnerable individuals in San Luis Obispo County. The program provides permanent housing, interactive health treatment, and other support to empower adults with mental illness with independent living skills. This support has helped to significantly reduce

emergency room visits, psychiatric admissions, and days in detention. Additionally, Transitions' Family Support Services offer education and support to families, so they can encourage and assist their relatives, who are experiencing mental illness.

Transitions' two social enterprise operations - Growing Grounds Farm and Nursery and the Growing Grounds Downtown store - employ over 90 disabled people per year. The nursery provides opportunities for socialization, horticultural therapy, and employment. The Supported Employment Program provides assistance to mentally ill job seekers to help them find and retain employment.

Transitions' YTP is offered under its clinical services program and provides structure and support to help youth to learn cognitive, social, and emotional skills to achieve independence and community integration in a trauma-informed, supported environment.

In fiscal year 2022, Transitions served over 5,500 families and mental health patients and reached over 12,000 local contacts to educate the community about the treatment and recovery options for mental illness.

Additionally, Transitions has received two grants through the Authority funded No Place Like Home Program from the State of California, Housing and Community Development Department to develop supportive housing for local homeless adults living with mental illness. Transitions received \$2,034,961 for its Palm Street Studios location and \$1,493,335 for its Branch Street Permanent Housing location.

Licensure and Accreditation

Transitions – Mental Health Association is licensed by the State Department of Social Services to operate and maintain short term residential therapeutic programs.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. HII-346, in an amount not to exceed \$1,840,000 for Transitions – Mental Health Association, 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-346

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, **Transitions – Mental Health Association.** (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 an amount not to exceed **\$1,840,000** for a term not to exceed **20 years** for the purposes described in Exhibit A of this resolution (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 real property located at 6380 Edna Road, San Luis Obispo, CA 93401
2. 20-year, two percent (2%) fixed-rate loan
3. Executed purchase contract
4. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
5. Corporate gross revenue pledge
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. This resolution shall not 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 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 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 on January 31, 2024.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-346

- Purchase real property located at 6380 Edna Road, San Luis Obispo, CA 93401