

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

<p>Applicant: Humanistic Foundation, Incorporated (Humanistic) 5757 W Century Boulevard, Suite 303 Los Angeles CA 90045 Los Angeles County</p> <p>Project Site: To be determined (Los Angeles County)</p> <p>Facility Type: Short Term Residential Therapeutic Program & Mental Health Center</p> <p>Eligibility: Government Code Section 15432(d)(13) and (16)</p> <p>Prior HELP II Borrower: No</p>	<p>Loan Amount: \$1,200,000</p> <p>Loan Term: 20 years</p> <p>Annual Interest Rate: 2% fixed</p> <p>Authority Meeting Date: January 25, 2024</p> <p>Resolution No. HII-350</p>																
<p>Background: Humanistic was established in 1993 and currently operates three Short Term Residential Therapeutic Program (STRTP) facilities with a total capacity to serve 20 dependent and non-minor dependent males, from 14 to 21 years old. Humanistic’s program offers individualized treatment tailored to each resident’s needs with the goal to reunify the youths with their families. Humanistic also provides mental health and rehabilitation services in addition to substance use counseling, mentorship, and guidance.</p>																	
<p>Use of Proceeds: Loan proceeds will be used to finance the purchase of a property located in Los Angeles County for the purpose of expanding Humanistic’s STRTP services with an additional six beds.</p>																	
<p>Financing Structure:</p> <ul style="list-style-type: none"> • First lien on the real property purchased with HELP II funds (Los Angeles County) • 20-year, two percent (2%) fixed rate loan • 240 equal monthly payments of approximately \$6,071 (annual payments of approximately \$72,850) • A current appraisal that exhibits a loan-to-value ratio not to exceed 95% • Executed purchase contract • Corporate gross revenue pledge • Verification of borrower funds to close escrow 																	
<p>Financial Overview: Humanistic’s solid growth in revenue is mainly supported by increasing group home revenues along with a new revenue source from the addition of mental health services. Humanistic’s balance sheet continues to grow and exhibits a strong pro-forma FY 2022 net debt service coverage ratio of 6.2x.</p>																	
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<p>Due Diligence: Staff has confirmed the following documentation provided by Humanistic satisfies the California Health Facilities Financing Authority’s (Authority) requirements: Eligibility, Legal Review, and Religious Affiliation Due Diligence.</p>																	
<p>Staff Recommendation: Staff recommends the Authority approve Resolution No. HII-350 in an amount not to exceed \$1,200,000 for Humanistic Foundation, Incorporated, subject to the terms and conditions in the resolution. TAP International, Inc., the Authority’s financial analyst, concurs with the Authority’s staff recommendation.</p>																	

STAFF SUMMARY, ANALYSIS, AND RECOMMENDATION

I. PURPOSE OF FINANCING

Humanistic is requesting a HELP II loan to purchase a property located in Los Angeles County to be used as a licensed STRTP and Mental Health Center. Humanistic currently operates one eight-bed facility in Los Angeles and two six-bed facilities in Bakersfield for a total of 20 beds. Humanistic leases these three facilities, and the new property will be the first owned facility. The new facility will allow Humanistic to expand its current program in Los Angeles County with an additional six beds.

Purchase Real Property \$1,265,000

Humanistic plans to purchase a residential property in Los Angeles County that will be approximately 2,000 square feet, with 4 - 5 bedrooms and 2 - 3 bathrooms. The new facility will serve male youth ages 11-21. Humanistic will provide direct care and supervision in addition to mental health services, and the new facility will create approximately 15 - 25 new jobs in the Los Angeles area.

The HELP II loan will be secured by a first (1st) lien position on the property purchased. Additionally, Humanistic will have to provide an appraisal for the proposed property, 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 20,000

Authority Fees \$15,000

Estimated Escrow/Title Fees 5,000

Total Estimated Uses of Funds \$1,285,000

II. FINANCIAL STATEMENTS AND ANALYSIS

Humanistic Foundation, Incorporated Statement of Activities

	For the Years Ended December 31,		
	2022	2021	2020
Revenues and support			
Group Home (STRTP)	\$ 3,044,555	\$ 2,986,857	\$ 2,935,126
Nutrition Program	35,160	48,379	30,333
Insurance claim	-	-	10,153
EIDL grant	-	-	10,000
Mental Health Income	988,335	240,409	-
Other income	460,763	306,011	1,494
Total revenue & support	<u>4,528,813</u>	<u>3,581,656</u>	<u>2,987,106</u>
Expenses			
Salaries and wages	2,600,210	2,330,600	2,056,995
Taxes & fringe benefits	324,397	351,079	337,745
Total salaries & fringe benefits	<u>2,924,607</u>	<u>2,681,679</u>	<u>2,394,740</u>
Accounting - Services	19,923	15,925	14,600
Advertising	15,818	12,342	276
Auto expenses	58,623	36,752	37,634
Bank charges	188	3,189	358
Building repairs & maintenance	82,067	119,415	174,371
Equipment expenses	37,351	5,014	5,901
Contractual services	83,956	15,776	43,429
Consultant	56,780	111,806	54,944
Food	96,030	79,448	89,449
Fines and penalties	-	70	-
Gifts	200	-	175
In service training	8,139	7,250	2,090
Insurance- general	47,218	27,119	20,990
Insurance- workers' compensation	31,330	-	-
Interest	2,324	6,188	-
License & fees	4,295	4,099	616
Membership & subscriptions	11,126	11,459	1,976
Mental health software	-	18,000	18,000
Miscellaneous	814	646	54
Office supplies	20,231	27,589	23,266
Office lease & storage	84,084	58,625	42,739
Payroll processing fees	6,808	5,357	4,039
Postage	983	1,564	1,885
Bad debts	-	-	2,000
Print & publication	231	-	-
Facility lease	95,261	89,800	95,025
Supportive services	94,300	79,114	87,052
Seminars & training	-	4,525	2,025
Software services	9,000	-	-
Travel and meetings	491	129	242
Telephone	28,313	25,946	29,640
Utilities	45,754	43,829	42,334
Total expenses before depreciation and amortization	<u>3,866,245</u>	<u>3,492,655</u>	<u>3,189,850</u>
Depreciation and amortization	14,727	-	1,534
Total expense	<u>3,880,972</u>	<u>3,492,655</u>	<u>3,191,384</u>
Change in net assets	647,841	89,001	(204,278)
Net Assets, beginning of year	165,985	76,984	268,389
Prior period adjustment	-	-	12,873
Net Assets, end of year	<u>\$ 813,826</u>	<u>\$ 165,985</u>	<u>\$ 76,984</u>

Humanistic Foundation, Incorporated
Statement of Financial Position

	As of December 31,		
	2022	2021	2020
Assets			
Current assets			
Cash	\$ 394,201	\$ 155,722	\$ 288,977
Grants receivable	581,808	209,879	263,311
Prepaid rent	-	-	2,890
Total current assets	976,009	365,601	555,178
Noncurrent Assets			
Security Deposit	3,771	3,771	3,771
Property and equipment - net	105,871	-	-
Finance lease Right-of-Use Asset - net of amortization	3,503	-	-
Operating lease Right-of-Use Asset - net of amortization	657,462	-	-
Total noncurrent assets	770,607	3,771	3,771
Total assets	\$ 1,746,616	\$ 369,372	\$ 558,949
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 16,000	\$ 16,661	\$ 13,500
Payroll & related liabilities	18,037	30,022	34,506
Accrued interest on SBA loan	4,188	-	-
Miscellaneous liabilities	1,010	616	1,509
Finance lease liability - current portion	3,159	-	-
Operating lease liability - current portion	119,485	-	-
Loan payable - current	-	-	3,846
Total current liabilities	161,879	47,299	53,361
Noncurrent Liabilities			
Accrued interest on SBA loan	-	6,188	-
Vehicle loan payable	72,252	-	-
Loan payable non-current	149,900	149,900	428,604
Finance lease liability	266	-	-
Operating lease liability	548,493	-	-
Total noncurrent liabilities	770,911	156,088	428,604
Total liabilities	932,790	203,387	481,965
Net assets			
Without donor restrictions	813,826	165,985	76,984
Total net assets	813,826	165,985	76,984
Total liabilities and net assets	\$ 1,746,616	\$ 369,372	\$ 558,949

	Proforma^(a)			
	FYE 12/31/2022	2022	2021	2020
Debt Service Coverage - Net (x)	6.2	286.1	9.5	NA
Debt to Unrestricted Net Assets (x)	1.8	0.3	0.9	5.6
Margin (%)		14.3	2.5	(6.8)
Current Ratio (x)		6.0	7.7	10.4

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

Financial Discussion

Humanistic's solid growth in revenue is mainly supported by increasing group home revenues along with a new revenue source from the addition of mental health services.

Total revenue and support has grown from approximately \$3 million in FY 2020 to approximately \$4.5 million in FY 2022, a 51.6% increase. According to Humanistic, total revenues and support increased due to fee increases for its group home services starting in FY 2022 and the addition of mental health services in Los Angeles and Kern counties in FY 2021, which contributed approximately \$240,000 in FY 2021 and \$988,000 in FY 2022. Another factor contributing to increasing revenues was a one-time grant of \$460,763 in FY 2022 through Senate Bill 129 (SB 129), which provided funding from the California Department of Social Services to certain STRTPs that were affected by COVID-19 and experienced added expenses and lost revenues. Additionally, Humanistic received a Paycheck Protection Program (PPP) loan that was forgiven in FY 2021 and was recognized as other income of \$282,550 in the same fiscal year.

Total expenses for Humanistic increased from approximately \$3.2 million in FY 2020 to nearly \$3.9 million in FY 2022, an increase of 21.2%. Total salaries and wages were the main contributors to the increased expenses, growing from nearly \$2.1 in FY 2020 to approximately \$2.6 million in FY 2022, a 26.4% increase. According to Humanistic, the main factor for the increase in salaries was due to the addition of the mental health program that requires specific, highly educated staff that necessitated higher salaries.

Humanistic's balance sheet continues to grow and exhibits a strong pro-forma FY 2022 net debt service coverage ratio of 6.2x.

Humanistic demonstrated a strong net debt service coverage ratio at 286.1x in FY 2022 as its only debt for the year was interest on an Economic Injury Disaster Loan (EIDL). Funds from the EIDL were used to meet working capital and cash flow needs during the COVID-19 pandemic. Additionally, Humanistic purchased a total of four vehicles in FY 2022 and FY 2023 to provide transportation for its clients. With the proposed new HELP II loan and including the loans for the four new vehicles purchased, Humanistic maintains a strong pro forma FY 2022 net debt service coverage ratio of 6.2x, indicating it is capable of repaying the additional debts.

Humanistic displays a high debt to unrestricted net assets ratio of 5.6x in FY 2020 due to the PPP loan liability on the balance sheet. Once the PPP loan was forgiven, Humanistic's debt to unrestricted net assets ratio decreased to 0.9x in FY 2021 and 0.3x in FY 2022, reflecting its low usage of debt. Humanistic's pro-forma FY 2022 debt to unrestricted net assets ratio increased to a manageable 1.8x with the various new vehicle loans and the anticipated HELP II loan.

III. OUTSTANDING DEBT

	Original Amount	Amount Outstanding as of December 31, 2022	Estimated Amount Outstanding after Proposed Financing
EXISTING LONG-TERM DEBT			
Economic Injury Disaster loan (June 2020)	\$ 150,000	\$ 149,900	\$ 149,900
Toyota (April 2022)	33,337	27,968	27,968
Chrysler (June 2022)	23,563	17,589	17,589
Toyota (December 2022)	29,695	26,695	26,695
Toyota (March 2023)	29,089	-	29,089
PROPOSED NEW DEBT			
HELP II Loan (2024)			1,200,000
TOTAL DEBT		\$ 222,152	\$ 1,451,241

IV. UTILIZATION STATISTICS

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

	2022	2021	2020
Totals	60	56	55

V. BACKGROUND AND LICENSURE

Background

Humanistic is a 501(c)(3) organization that was established in 1993 and currently operates three STRTP facilities with a total capacity to serve 20 dependent and non-minor dependent males, from 14 to age 21 years old in a structured and therapeutic environment. Humanistic's programs offer individualized treatment tailored to each resident's needs for the purpose of reunifying youths with their families and to provide them with strategies and cognitive tools that are needed to be successful in life. Humanistic also provides mental health and rehabilitation services in addition to substance use counseling, mentorship, and guidance.

Humanistic's philosophy is that every human being has the inherent right to enhance their development and maximize their achievement of self-determination and autonomy in the least restrictive, most humanistic and normalizing environment available to them. It is also Humanistic's philosophy that families and guardians are encouraged to become involved in the daily activities of the program with visits between youth and their families encouraged, whether at the facility or at the family's home.

Licensure, Certification and Accreditation

All of Humanistic's facilities are licensed as Short Term Residential Therapeutic Programs by the Department of Social Services and are certified by the Department of Health Care Services to provide mental health services.

VI. STAFF RECOMMENDATION

Staff recommends the Authority approve Resolution No. HII-350 in an amount not to exceed \$1,200,000 for Humanistic Foundation, Incorporated, 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 No. HII-350

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, **Humanistic Foundation, Incorporated** (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 **\$1,200,000** 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 the real property purchased with HELP II funds (Los Angeles County)
2. 20-year, two percent (2%) fixed rate loan
3. A current appraisal that exhibits a loan-to-value ratio not to exceed 95%
4. Executed purchase contract
5. Corporate gross revenue pledge
6. Verification of borrower 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 July 31, 2024.

Date of Approval: _____

EXHIBIT A

USE OF HELP II LOAN PROCEEDS FOR RESOLUTION NO. HII-350

- Purchase real property located in Los Angeles County