

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
STAFF SUMMARY AND RECOMMENDATION**

HELP II Loan Program

Progress House, Inc.

Amendment to Resolution Number HII-209

August 28, 2014

PURPOSE OF REQUEST:

Progress House, Inc. (“PH”) requests a loan modification to the repayment terms of its HELP II loan to assist PH in recovering from its financial hardship. The loan modification would include interest only payments for one year beginning April 1, 2014 through March 1, 2015. In addition, the term of the loan would be extended by one year with a new maturity date of March 1, 2024. If approved, the monthly payments would be reduced from \$3,869.33 in principal and interest to \$914.57 in interest only for a cash flow savings of \$2,954.76 per month.

BACKGROUND AND ANALYSIS:

At its December 7, 2007 meeting, the Authority approved a HELP II loan for PH in the amount of \$560,300 to refinance three high interest rate loans and to renovate one of its residential facilities. The HELP II loan is secured by a first lien on the property located in Coloma, California. According to PH’s management, the estimated current market value of the property is approximately \$600,000. Staff is comfortable with this estimate since PH’s current HELP II loan balance of approximately \$365,826.83, leads to an approximate loan to value ratio of 60.9%.

PH has been current on its loan payments through April 1, 2014. After April 2014, PH was unable to make its loan payments after experiencing several financial challenges, including management issues, outstanding federal taxes, state payroll taxes, and the recent loss of a \$900,000 contract with El Dorado County (“the County”).

In order to address these financial challenges, in March 2014, PH’s Board of Directors appointed a Certified Public Accountant as the new Executive Director, in an effort to improve its financial condition and re-establish the working relationship with the County. The new Executive Director has since implemented a strategic business plan to begin to address the organization’s deficiencies. Recently, PH has also met with the County in order to address the County’s contract terms and requirements. PH expects the contract with the County to be executed in September 2014.

PH has provided a copy of its strategic business plan to the Authority staff, a summary of which is provided on the following page. Macias, Gini & O’Connell, LLP, the Authority’s financial analyst, has reviewed the strategic business plan and deemed it acceptable.

The strategic business plan is summarized as follows:

1. El Dorado County Health and Human Services Agency Contract

PH met with El Dorado County to re-establish its working relationship by addressing the terms and conditions of the services provided. The value of the contract is approximately \$900,000 and is expected to be executed in September 2014. According to PH management, this contract will further improve its financial position, resulting in a 27% increase in gross revenues per year.

2. Rural Community Assistance Corporation (RCAC) loans

In June 2014, PH re-negotiated its loans with RCAC, subject to the approval of the contract from El Dorado County. The two RCAC loans will be re-amortized and the interest rates were reduced to 5.75% from 7.5%. According to PH management, this interest rate reduction will result in an estimated savings of \$1,000 per month.

3. Alta Property for Sale

In August 2014, PH sold one of its vacant properties located in Alta, California for approximately \$265,000. A portion of the proceeds was used to pay the Internal Revenue Services and Employment Development Department for unpaid payroll taxes. The remaining balance of the proceeds was used to pay down outstanding expenditures.

4. Reduction in Personnel Dollars and Various Expenditures

In order to control expenses, PH reduced operational costs including office supplies, transportation, phone services and staff. According to PH management, these reductions will result in an estimated savings of approximately \$19,000 per month.

FINANCIAL ANALYSIS:

Audited Financial Statements for FY 2011-2013

PH's income from operations appears to fluctuate over the review period from a positive \$85,122 in FY 2011 to a negative \$8,500 in FY 2012 and back to a positive \$34,299 in FY 2013. According to PH management, the fluctuation is due to a write off of uncollectible receivable from the Medi-Cal billings. A write off of \$205,000 was recorded in FY 2012 that contributed to the loss that year.

PH's balance sheet for FY 2013 appears to exhibit a diminished fiscal position with a debt service coverage ratio of 0.94x and 12 days cash on hand. Total unrestricted net assets appears to be stable from approximately \$1.11 million in FY 2011 to \$1.14 million in FY 2013, but highly leveraged with debt to unrestricted net assets of 1.41x in FY 2013, which indicates PH relies heavily on credit.

Unaudited Financial Statements from July 1, 2013- June 30, 2014

According to PH management, its financial position further deteriorated due to the loss of approximately \$515,000 for FY 2014, primarily attributed to the loss of the El Dorado County contract. However, PH's financial performance should improve after the El Dorado County contract is reinstated.

STAFF RECOMMENDATION:

Staff recommends the Authority approve an amendment to Resolution No. HII-209 for Progress House, Inc. to allow a loan modification, which would: (1) include interest only payments for one year beginning April 1, 2014 through March 1, 2015 and (2) extend the term of the loan one year, with a new maturity date of March, 1, 2024.

This recommendation is predicated upon the below conditions being met by PH:

1. PH must provide the Authority staff unaudited quarterly financials, financial reports, a brief summary of its financial condition, and its progress towards its strategic business plan for the remainder of the HELP II loan or other time periods as Authority staff may require.
2. PH must provide the Authority's staff with a copy of the executed contract between PH and El Dorado County, evidencing PH's ability to generate the additional revenue necessary to improve its financial position, no later than two (2) months after the approval of the amendment to Resolution No. HII-209.
3. PH must execute documents for loan modifications, including amendments to the loan and security agreement and promissory note, as required by Authority staff.
4. Failure to comply with any of the above conditions shall cause the interest only payment modification of the loan to be revoked, and the loan shall be re-amortized to the original maturity date of March 1, 2023 with a balloon payment due at maturity.

Macias, Gini & O'Connell, LLP, the Authority's financial analyst, concurs with the Authority's staff recommendation.

FINANCIAL STATEMENTS:

**PROGRESS HOUSE
CONSOLIDATED STATEMENT OF OPERATION
(UNRESTRICTED)**

	As of June 30,		
	2013	2012	2011
Revenue			
Grants and awards	\$ 2,625,320	\$ 2,513,818	\$ 2,460,061
Program income	265,700	291,201	325,656
Rent income	108,520	51,790	55,160
Fundraising (net)	2,041	1,570	1,981
Donations In-kind support	297,984	364,364	395,794
Other revenue	3,627	3,570	135,637
Total revenue	<u>3,303,192</u>	<u>3,226,313</u>	<u>3,374,289</u>
Expenses			
Salaries	1,140,609	1,093,896	1,080,941
Employee benefits	405,861	310,360	470,716
In-kind services	297,984	364,364	395,794
Food	233,944	140,190	112,617
Utilities	179,473	200,155	195,147
Interest	122,135	72,466	142,935
Occupancy	98,816	98,736	106,428
Payroll taxes	86,511	128,034	81,885
Drug screening and test	79,125	50,909	122,087
Depreciation and amortization	78,492	83,850	99,548
Communications	78,404	61,445	61,513
Transportation	67,880	64,962	54,522
Others	49,425	96,802	72,838
Insurance	46,794	43,999	47,448
Miscellaneous	44,793	107,975	25,741
Accounting	42,623	59,895	35,548
Office expense	36,268	29,633	31,968
Household and furniture expense	31,732	21,264	34,381
Professional services	28,973	27,145	26,608
Repairs and maintenance	25,364	17,137	42,179
Total expenses	<u>3,175,206</u>	<u>3,073,217</u>	<u>3,240,844</u>
Income from operation	127,986	153,096	133,445
Other income/(expenses)	<u>(93,687)</u>	<u>(161,596)</u>	<u>(48,323)</u>
Increase in unrestricted net assets	<u>34,299</u>	<u>(8,500)</u>	<u>85,122</u>
Unrestricted net assets at beginning of year	1,104,339	1,112,839	1,027,717
Unrestricted net assets end of year	<u>\$ 1,138,638</u>	<u>\$ 1,104,339</u>	<u>\$ 1,112,839</u>

**PROGRESS HOUSE
CONSOLIDATED BALANCE SHEET**

	As of June 30,		
	2013	2012	2011
ASSETS			
Cash and cash Equivalents	\$ 102,969	\$ 93,902	\$ 83,569
Account receivable, net	517,830	560,911	674,207
Prepaid expenses	22,038	36,350	40,415
Other assets	2,314	2,314	7,901
Total current assets	<u>645,151</u>	<u>693,477</u>	<u>806,092</u>
Property and equipment	2,372,736	2,442,893	2,512,798
Deposit	4,250	4,250	4,250
Total assets	<u><u>3,022,137</u></u>	<u><u>3,140,620</u></u>	<u><u>3,323,140</u></u>
LIABILITIES AND NET ASSETS			
Accounts payable	\$ 108,434	\$ 162,655	\$ 212,530
Accrued expenses	50,820	39,806	44,605
Other current liabilities	4,130	4,134	24,525
Current portion of long-term debt	118,453	127,697	170,510
Line of credit	-	75,000	-
Total current liabilities	<u>281,837</u>	<u>409,292</u>	<u>452,170</u>
Long-term liabilities	<u>1,601,662</u>	<u>1,626,989</u>	<u>1,758,131</u>
Total liabilities	<u><u>1,883,499</u></u>	<u><u>2,036,281</u></u>	<u><u>2,210,301</u></u>
Net assets			
Unrestricted	1,138,638	1,104,339	1,112,839
Temporary restricted	-	-	-
Total net assets	<u>1,138,638</u>	<u>1,104,339</u>	<u>1,112,839</u>
Total liabilities and net assets	<u><u>\$ 3,022,137</u></u>	<u><u>\$ 3,140,620</u></u>	<u><u>\$ 3,323,140</u></u>

Financial Ratios:

Debt Service Coverage - Operating (x)	0.94	0.61	1.22
Debt to Unrestricted Net Assets (x)	1.51	1.59	1.73
Margin (%)	1.04	(0.26)	2.52
Current Ratio (x)	2.29	1.69	1.78

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

**Amendment to Resolution Number HII-209
APPROVAL OF CERTAIN MODIFICATIONS FOR
PROGRESS HOUSE, INC.
HELP II LOAN TERMS**

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 (the “Act”) to provide secured or unsecured loans to participating health institutions to finance or refinance 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, on December 6, 2007, Progress House, Inc., (the “Borrower”), a California nonprofit corporation and participating health institution, was approved for a Program loan in the amount of \$560,300, of which approximately \$365,827 remains outstanding (Resolution No. HII-209);

WHEREAS, on October 28, 2010, the Authority approved subordination of the Authority’s gross revenue pledge for the Borrower’s Program loan (Resolution No. HII-260);

WHEREAS, Borrower now requests modifications to the repayment terms of its Program loan to assist the Borrower to recover from its financial hardship, and the Authority staff recommends the amendment to Resolution No. HII-209 as hereinafter set forth; and

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. The Authority approves the modifications of the Borrower’s Program loan to allow the Borrower to pay interest only payments for one (1) year, beginning the month of April 2014 through March 2015. Accordingly, the term of the Program loan shall be extended by one (1) year with a new maturity date of March 1, 2024. This approval is subject to the following conditions:

1. The Borrower must provide the Authority staff, upon request, unaudited quarterly financials, financial reports, a brief summary of its financial condition, and its progress towards its business plan for the remainder of the Program loan or other time period as Authority staff may permit.
2. The Borrower must provide the Authority’s staff with a copy of the executed contract between the Borrower and El Dorado County, evidencing the Borrower’s ability to generate the additional revenue necessary to improve its financial position, no later than two months after the approval of this amendment to Resolution No. HII-209.

3. The Borrower must execute documents for Program loan modifications as set forth in this amendment to Resolution No. HII-209, including amendments to the loan and security agreement and promissory note, as required by Authority staff.
4. Failure to comply with any of the above conditions shall cause the interest only payment modification of the Program loan terms to be revoked, and the Program loan shall be re-amortized to the original maturity date of March 1, 2023 with a balloon payment due at maturity.

Section 2. This amendment to Resolution No. HII-209 expires March 1, 2015.

Date Approved: _____