

**CHFFA HELP II LOAN PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Safe Refuge 1041 Redondo Avenue Long Beach, California 90804 Los Angeles County	Amount Requested:	\$1,000,000
Project Sites:	3116 East 7 th St. Long Beach, CA 90804 3111-3113 East 7 th St. Long Beach, CA 90804	Requested Loan Term:	15-year fixed
Facility Type:	Alcoholism Recovery Facility/Chemical Dependency Facility	Authority Meeting Date:	May 26, 2016
Eligibility:	Government Code section 15432(d)(13)	Resolution Number:	HII-300
Prior HELP II Borrower:	Yes (2003 and 2010 with outstanding balances of \$89,930 and \$326,981 respectively as of May 1, 2016) (The payments have been timely.)		

Background: Safe Refuge, formerly the Substance Abuse Foundation of Long Beach, was established in 1988 and has been providing drug and alcohol rehabilitation services to vulnerable and underrepresented populations in Los Angeles County. Safe Refuge provides affordable treatment to over 1,000 clients per year in a caring and supportive therapeutic environment. Treatment includes both residential and outpatient treatment as well as alcohol and drug free housing in order to support the wide array of needs within the community.

Use of Loan Proceeds: Loan proceeds will be used to refinance two existing private loans from Wells Fargo Bank. The combined new HELP II loan will consolidate debt and lower interest loan rate from approximately 6% to 3% for an annual savings of \$36,000.

Financing Structure:

- First lien on the properties located at 3116 E. 7th St. and 3111-3113 E. 7th St. Long Beach, CA
- 15-year, three percent (3%) fixed rate loan
- 180 equal monthly payments of approximately \$6,905 (annual payments of approximately \$82,869)
- A current appraisal that is acceptable to the Authority
- Corporate gross revenue pledge
- Loan to value ratio not to exceed 95% (estimated loan to value ratio is approximately 57%)
- Verification of borrower funds to close escrow
- Payoff existing HELP II loans prior to closing

Financial Overview: Safe Refuge's income statement appears to exhibit fluctuating operating results with improving revenue over the review period, and its balance sheet is steady with a pro-forma debt service coverage ratio of 3.54x.

Estimated Sources of Funds:

HELP II Loan	\$ 1,000,000
Borrower Funds	15,500

Estimated Uses of Funds:

Refinance Loans	\$ 1,000,000
Financing Costs	15,500

Total Estimated Sources	<u>\$ 1,015,500</u>
--------------------------------	----------------------------

Total Estimated Uses	<u>\$ 1,015,500</u>
-----------------------------	----------------------------

Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through and Community Service Requirement documentation. All documentation satisfies the Authority's requirements.

Parties of Interest: Old Republic Title Company; and Wells Fargo Bank

Staff Recommendation: Staff recommends approval of Resolution Number HI-300 for Safe Refuge in an amount not to exceed \$1,000,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell LLP, the Authority's financial analyst, concurs with the Authority's staff recommendations.

I. PURPOSE OF FINANCING:

Safe Refuge is requesting a HELP II loan to refinance two existing private loans from Wells Fargo Bank (the “Wells Fargo Loans”). Safe Refuge obtained the Wells Fargo Loans in order to quickly meet the rising demands for substance abuse treatment and support recovery services to homeless and economically disadvantaged adults. This refinancing will allow Safe Refuge to consolidate debt and lower loan interest rates from approximately 6% to 3%. It will also save Safe Refuge roughly \$675,000 throughout the life of the loan, which will pass the savings to strengthen client services. Safe Refuge is an existing HELP II loan borrower and has made timely payments with a current outstanding balance of approximately \$417,000. Safe Refuge intends to pay off the existing HELP II loans in full before closing, contingent upon Authority approval.

***Refinance Wells Fargo Loans* \$1,000,000**

Safe Refuge obtained two Wells Fargo Loans to purchase properties used to deliver substance abuse rehabilitation services. The first of the Wells Fargo Loans was taken out in 2010 in the amount of \$246,000 at an interest rate of 6.7% in order to purchase the property located at 3111-3113 East 7th St. Long Beach, CA. The second of the Wells Fargo Loans was taken out in 2011 in the amount of \$1,000,000 at an interest rate of 6.05% in order to purchase the properties located at 717-723 Orizaba Ave., Long Beach, CA and 3116 East 7th St. Long Beach, CA, and 1035-1041 Redondo Ave, Long Beach, CA. The loans will mature in 2040 and 2041, respectively. The new HELP II loan will reduce the interest rate to 3% and save Safe Refuge approximately \$3,000 per month. A current appraisal of the property will be required prior to closing.

The new HELP II loan will be secured by a first (1st) lien position on the properties located at 3116 E. 7th St. and 3111-3113 E. 7th St. Long Beach, CA. Safe Refuge’s management estimates the combined property value of the two locations at \$1,769,000, leading to a loan-to-value of approximately 57%. An appraisal acceptable to the Authority will need to be completed prior to closing to reflect a loan-to-value ratio of at least than 95%.

***Financing Costs* 15,500**

Authority Fees \$12,500

Title and Escrow Fees 3,000

Total Uses of Funds \$1,015,500

FINANCIAL STATEMENTS AND ANALYSIS:

Safe Refuge Statement of Activities (Unrestricted)

	As of June 30,		
	2015	2014	2013
Revenue and Other Support*			
Support, Revenue, and Grant			
Government Grants	\$ 3,878,126	\$ 3,828,653	\$ 3,546,310
Client Service Fees	250,319	288,630	266,470
General Relief - Board and Care	5,470	7,094	38,962
Special Event - Annual Dinner	6,365	25,371	18,230
Food Stamps	23,563	9,346	27,517
Miscellaneous	9,308	7,265	12,731
Contributions	12,331	21,196	7,101
Gain on Sale of Fixed Assets	-	-	5,260
Rental Income	7,150	-	-
Interest Income	428	1,013	945
Total Revenue and Other Support	<u>4,193,060</u>	<u>4,188,568</u>	<u>3,923,526</u>
Expenses			
Salaries and Benefits	2,165,586	2,086,566	1,909,880
Employee Benefits and Payroll Taxes	334,354	402,779	414,967
Automobile Expense	55,655	52,837	54,578
Accounting and Legal	27,609	58,820	96,343
Advertising	235	2,975	429
Bad debts	3,727	10,310	9,628
Books/Publications	2,226	2,470	1,671
Client Activities	14,066	15,620	17,693
Employment Services	6,212	3,365	3,172
Consulting	75,375	160,488	244,454
Education and Seminars	8,514	3,783	5,131
Food	188,705	168,720	161,213
Fundraising Expenses	-	7,489	8,791
Furniture and Equipment	51,667	30,893	32,216
Insurance	197,414	75,864	50,538
Interest Expense	214,390	200,129	171,616
Medical Costs	33,192	32,138	43,164
Office Expense	57,945	61,010	43,453
Printing, Postage and Reproduction	10,308	5,808	7,597
Rehabilitation and Stipends	25,583	16,830	30,455
Repairs and Maintenance	73,758	70,199	78,749
Residential Supplies/Cleaning Supplies	76,407	89,506	80,759
Office and House Rental Expenses	63,817	63,190	66,937
Settlement	37,075	-	-
Taxes, Licenses, and Permit Fees	29,200	41,013	31,680
Telephone/Communications	65,700	59,765	59,861
Transportation and Travel	23,208	11,134	5,132
Utilities	146,341	146,827	151,086
Bank Fees and Other	2,249	17,184	9,308
Miscellaneous Expenses	1,650	738	11,278
Depreciation	233,030	181,179	186,974
Total Expenses	<u>4,225,198</u>	<u>4,079,629</u>	<u>3,988,753</u>
Change in net assets	(32,138)	108,939	(65,227)
Net assets at beginning of year	1,358,598	1,249,659	1,314,886
Net assets at end of year	<u>\$ 1,326,460</u>	<u>\$ 1,358,598</u>	<u>\$ 1,249,659</u>

***Revenue and Other Support for FYE June 30, 2015**

<u>Payor Source</u>	<u>Percent</u>
County Reimbursement	48
Federal Reimbursement	15
Grants	18
Other	2
State Reimbursement	9
Client Fees	8
<hr/> Total	<hr/> 100

[INTENTIONALLY LEFT BLANK]

**Safe Refuge
Statement of Financial Position
(Unrestricted)**

	As of June 30,		
	2015	2014	2013
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 1,165,107	\$ 941,118	\$ 790,150
Grants and Accounts Receivable	588,515	813,442	773,097
Loan Receivable	-	-	89,827
Inventory	-	-	5,767
Advance Receivable From Related Party	-	5,000	10,140
Deposits and Other Assets	3,494	3,523	-
Total Current Assets	<u>1,757,116</u>	<u>1,763,083</u>	<u>1,668,981</u>
Fixed Assets			
Land, Buildings, Furniture and Equipment, net	5,578,520	5,620,194	4,874,637
Intangible Assets	32,225	12,250	-
Prepaid Expenses	8,869	-	27,797
Net Fixed Assets	<u>5,619,614</u>	<u>5,632,444</u>	<u>4,902,434</u>
Total Assets	<u>\$ 7,376,730</u>	<u>\$ 7,395,527</u>	<u>\$ 6,571,415</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable	\$ 55,046	\$ 75,712	\$ 134,368
Accrued Liabilities	33,146	41,627	-
Cost Settlement Payment	-	-	32,116
Accrued Vacations	77,140	88,704	167,015
Capital Leases Payable	34,134	34,800	38,100
Current Portion of Note Payable	143,435	-	-
Total Current Liabilities	<u>342,901</u>	<u>240,843</u>	<u>371,599</u>
Long - Term Liabilities			
Notes Payable Net of Current Portion	1,725,212	1,990,032	2,105,936
Forgivable Loans Payable	3,957,744	3,757,017	2,738,460
Capital Leases Payable	24,413	49,037	105,761
Total Long-Term Liabilities	<u>5,707,369</u>	<u>5,796,086</u>	<u>4,950,157</u>
Total Liabilities	<u>6,050,270</u>	<u>6,036,929</u>	<u>5,321,756</u>
Net Assets			
Total Unrestricted Net Assets	<u>1,326,460</u>	<u>1,358,598</u>	<u>1,249,659</u>
Total Liabilities and Net Assets	<u>\$ 7,376,730</u>	<u>\$ 7,395,527</u>	<u>\$ 6,571,415</u>

	Proforma ^(a) FYE June 30, 2015	2015	2014	2013
Debt Service Coverage - Net (x) ^(b)	3.54	1.12	1.38	0.95
Debt to Unrestricted Net Assets (x)	4.07	4.44	4.29	3.99
Margin (%)		(0.77)	2.60	(1.66)
Current Ratio (x)		5.12	7.32	4.49

(a) Recalculates FY 2015 audited results to include the impact of this proposed financing

(b) Debt Service Coverage does not include forgivable loans

Financial Discussion – Statement of Activities (Income Statement)

Safe Refuge’s income statement appears to exhibit fluctuating operating results with improving revenue over the review period.

Safe Refuge appears to display fluctuating operating results with improving revenues. Total revenues increased from approximately \$3.9 million in FY 2013 to approximately \$4.19 million in FY 2015. Total expenses also increased as a result of Safe Refuge expanding and managing more properties in order to provide a larger scale of service. In FY 2015, expenses totaled approximately \$4.22 million and revenues totaled approximately \$4.19 million. Expenses increased at a faster pace than revenues causing operating income to fluctuate. Expenses outpaced revenues as a result of recent expansion, however, revenues from increased provision of services are expected to compensate for this disparity moving forward. In FY 2013, Safe Refuge’s operating income was approximately negative \$65,000, while FY 2014 had an approximate operating income of \$108,000, and FY 2015 had an operating income of approximately negative \$32,000. According to Safe Refuge’s management, the fluctuations in operating income are due to delays in reimbursements from funding entities. Reimbursement turnaround times vary and may not be reflected in the operating income totals. Funds in FY 2013 and FY 2015 were reimbursed after the Financial Statements and Single Audit Report were prepared.

Particular Facts to Note:

- Government grant revenue has increased 9.4% from approximately \$3.5 million to approximately \$3.9 million from FY 2013 to FY 2015. According to Safe Refuge’s management, this increase in government grant revenue is a result of Safe Refuge procuring more grants in order to satisfy increased need. Two of the larger grants obtained during this period were Drug Medi-Cal (approximately \$150,000) and Substance Abuse Mental Health Service Association (approximately \$95,000).
- Salaries increased 13.4% from approximately \$1.9 million to approximately \$2.1 million from FY 2013 to FY 2015. However, benefits and payroll taxes dropped 19.4%, from approximately \$415,000 in FY 2013 to approximately \$334,000 in FY 2015. According to Safe Refuge’s management, this increase in salary expenditure is due to approximately \$105,000 of worker’s compensation insurance being classified as insurance rather than employee benefits in FY 2015.
- In FY 2015, the grant audit filed claims against Safe Refuge for “disallowed cost or noncompliance with grantor restrictions” which ended in a settlement expense for \$37,075. According to Safe Refuge’s management, the claim has been fully resolved and no further payments are expected to be made.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Safe Refuge’s balance sheet appears steady with a pro-forma debt service coverage ratio of 3.54x.

Safe Refuge has received approximately over \$3.6 million in loans from California Department of Housing and Community Development Emergency Housing Assistance Program (“EHAP”). The loans have a compounding interest rate of 3% for seven years; as a portion of the principal amount are forgiven on a yearly basis, the interest will only be forgiven at the end of the loan term. Loans are forgiven contingent upon continuation of providing current services. Also, Safe Refuge does not make payments on the forgivable loans and has no plans to stop or alter services provided. When calculating Safe Refuge’s debt service coverage ratio, the outstanding forgivable loans were not included, since there are no annual payments. However, forgivable loans were calculated in the long term debt since Safe Refuge is liable for these loans until the loans are fully forgiven, resulting in a debt to unrestricted net assets ratio of 4.07x. Excluding Safe Refuge’s forgivable loans, the debt to unrestricted net assets ratio appears to a 1.08x. It appears that by FY 2022, Safe Refuge may no longer have any forgivable loans, which may strengthen its debt to unrestricted net assets for the future. With this refinancing, Safe Refuge’s pro-forma debt service coverage ratio appears to improve to 3.54x, indicating that Safe Refuge appears to be able to manage the additional debt.

Particular Facts to Note:

- Cash and cash equivalents have been increasing steadily from FY 2013 of approximately \$790,000 to FY 2014 of approximately \$940,000 to FY 2015 of approximately \$1.2 million. According to Safe Refuge’s management, the cash flow increase was due mainly to the EHAP loan proceeds.
- As cash and cash equivalents are increasing, grants and accounts receivable have been decreasing during the same period from approximately \$773,000 in FY 2013, to approximately \$800,000 in FY 2014, to approximately \$589,000 in FY 2015. According to Safe Refuge’s management, decreases in grants and accounts receivable are a result of two of Safe Refuge’s larger grants expiring. Safe Refuge has submitted applications for additional government and private foundation grants, which are currently pending.
- Safe Refuge has an “intangible asset”, which appreciated from \$12,250 in FY 2014 to \$32,225 in FY 2015. This intangible asset consists of a website design and organization logos, which are deemed to have indefinite lives. According to Safe Refuge’s management, this appreciation is a result of an enhanced rebranding campaign. Safe Refuge hired a marketing firm in 2014 and launched a rebranding campaign in 2015 in order to create awareness of the replacement of the organization’s name from ‘Substance Abuse Foundation of Long Beach’ to ‘Safe Refuge’.
- In FY 2013, the balance sheet reflects a cost settlement payment of \$32,116. According to Safe Refuge’s management, this payment is a result of clients receiving services they were unable to pay for. Safe Refuge provided the services despite lack of sufficient funding.

- Current portions of notes payable are not in the balance sheet for FY 2014 and FY 2013. According to Safe Refuge's management, in FY 2013 and FY 2014, the principal portion of the following notes payable were not known by Safe Refuge until they are invoiced each month by the lender and thus a schedule of future principal payments had not been disclosed in the accompanying financial statements. In FY 2015, Safe Refuge received a formal amortization schedule from the lender.

EXHIBIT 1

**UTILIZATION STATISTICS
Clients Served / (Patients Visits)**

For Fiscal Year Ended June 30,

	2015	2014	2013
Totals	886 / (79,740)	1,138 / (102,420)	1,194 / (107,460)

EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding ^(a) As of June 30, 2015</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA HELP II Loan (2003) ^(b)	\$ 400,000	\$ 114,959	\$ -
CHFFA HELP II Loan (2010) ^(b)	454,000	349,841	-
Wells Fargo (2004)	420,000	380,629	380,629
Wells Fargo (2010)	246,000	222,941	-
Wells Fargo (2011)	1,000,000	800,277	-
CDHCD Emergency Housing Assistance Program (2010) ^(c)	906,840	1,031,598	1,031,598
CDHCD Emergency Housing Assistance Program (2012) ^(c)	933,483	989,492	989,492
CDHCD Emergency Housing Assistance Program (2009) ^(c)	672,965	792,472	792,472
CDHCD Emergency Housing Assistance Program (2014) ^(c)	420,000	437,815	437,815
CDHCD Emergency Housing Assistance Program (2014) ^(c)	299,250	311,220	311,220
CDHCD Emergency Housing Assistance Program (2014) ^(c)	390,554	395,147	395,147
- PROPOSED NEW DEBT:			
CHFFA HELP II Loan (2016)		-	1,000,000
- TOTAL DEBT		\$ 5,711,432	\$ 5,338,373

^(a) Includes current portion of long-term debt

^(b) Remaining loan amount will be paid off contingent upon approval of new HELP II Loan 2016

^(c) Forgivable loans

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Safe Refuge is a non-profit corporation established in 1988 that operates several facilities within Los Angeles County for at-risk populations affected by drugs and alcohol. The organization seeks to assist underserved populations seeking an opportunity to recover from drug and/or alcohol addiction. Safe Refuge provides a variety of affordable treatment programs including residential and outpatient services, day treatment, job training, counseling, housing programs and more.

Treatment spans a complete continuum of care, with residential and outpatient treatment, rehabilitative and supportive services, and drug and alcohol free housing. Safe Refuge seeks to help at-risk populations overcome their problems with drugs and alcohol, providing rehabilitation often culminating in employment.

Safe Refuge serves the entirety of Southern California with a base in Long Beach, providing low cost care and several services to its clients. The unique “treatment campus” has rehabilitative residential and outpatient facilities just blocks away from the beach. Residential treatment is available for clients needing an intensive level of care, where men and women live in private residences and participate in daily recovery activities. Outpatient treatment is also provided to clients, with the intensity of services varying by individual needs--ranging from weekly to daily treatment sessions. Safe Refuge provides supportive care in a therapeutic community in order to give people the life skills they need to remain clean and sober.

Licensure, Certification and Accreditation

Safe Refuge is licensed by the State of California Department of Health Care Services to operate and maintain adult residential alcohol and/or drug abuse recovery or treatment facilities.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-300

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

WHEREAS, **Safe Refuge** (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 loan to the Borrower in an amount not to exceed **\$1,000,000** for a term not to exceed **15 years** for the purpose 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 position on the properties located at 3116 E. 7th St. and 3111-3113 E. 7th St. Long Beach, CA
2. Corporate gross revenue pledge;
3. A current appraisal that is acceptable to Authority staff;
4. Loan to value ratio not to exceed 95%;
5. Verification of Borrower’s funds to close escrow; and
6. Payoff existing HELP II loans prior closing.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, 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 is 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 funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: _____