**CHFFA HELP II PROGRAM**
**EXECUTIVE SUMMARY**

**Applicant:** Aldea, Inc. ("Aldea")
1801 Oak Street
Napa, CA 94559
Napa County

**Amount Requested:** $780,000
**Requested Loan Term:** 15-year fixed
**Authority Meeting Date:** January 30, 2014
**Resolution Number:** HII-284

**Project Site:** 1546 First Street, Napa, CA 94559
**Facility Type:** Community Mental Health Facility
**Eligibility:** Government Code section 15432(d) (13), (14), and (16)
**Prior HELP II Borrower:** Yes, and payments are current.

**Background:** Established in 1972, Aldea provides mental health services to children, families and adults with developmental disabilities and is located in Napa and Solano Counties. Aldea's programs include outpatient therapy, group home, foster care, residential treatment programs, school-based programs, and day treatment for children/special needs adults. In FY 2013, Aldea served approximately 2,225 clients.

**Uses of Loan Proceeds:** The HELP II loan proceeds will be used to refinance a private bank loan that was originally used to purchase a 9,264 square foot building presently operated by Aldea as a mental health clinic and administrative office. This refinance will allow Aldea to "lock in" a long-term fixed interest rate and avoid a variable interest rate adjustment in March 2016, as well as a balloon payment of $534,000 due in March 2021. This refinancing will result in an estimated cash flow savings of approximately $56,000 or 6% over the life of the loan. The HELP II loan proceeds will not be used for foster family agency purposes.

**Financing Structure:**

- 15-year fixed rate.
- 180 equal monthly payments of approximately $5,387 (yearly payments of approximately $64,638).
- Corporate gross revenue pledge.
- First (1st) lien position on the property located at 1546 First Street, Napa, CA 94559.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 29%).
- Verification of borrower funds.

**Financial Overview:** The income statement for Aldea appears to exhibit adequate operating results during the review period. Aldea's balance sheet appears to be financially healthy with a proforma debt service coverage ratio of 3.15x.

| **Estimated Sources of Funds:** | | | **Estimated Uses of Funds:** | | |
|---|---|---|---|---|---|
| HELP II Loan | $ | 780,000 | Refinance real property debt | $ | 814,000 |
| Borrower Funds | | 48,250 | Financing costs | | 14,250 |
| **Total Estimated Sources** | $ | 828,250 | **Total Estimated Uses** | $ | 828,250 |

**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:** First American Title

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-284 for Aldea, Inc. in an amount not to exceed $780,000 for a term not to exceed 15 years, contingent upon financing terms acceptable to the Authority. Macias Gini & O'Connell, LLP, the Authority's financial analyst, concurs with staff recommendation.

(MT)

## I. PURPOSE OF FINANCING:

Aldea seeks to refinance an existing loan to "lock in" a long-term fixed interest rate and avoid a variable interest rate adjustment in March 2016, as well as a balloon payment of $534,000 due in March 2021. According to Aldea's management, the refinance will result in a cash flow savings of approximately $56,000 or 6% over the life of the loan.

***Refinance real property debt*** ..... ***$814,000***

Aldea plans to refinance a private bank loan originally used to purchase a 9,264 square foot building (1546 First Street, Napa, CA) for approximately $2.5 million in FY 2008. In addition to serving as an administrative office, the primary services provided at this location are outpatient therapy, child abuse treatment service, school-based services, psychiatric evaluation and treatment, early childhood treatment/consultation, and training. In FY 2013, Aldea served approximately 339 clients at this clinic and an additional 904 clients in its community based programs.

The HELP II loan will be secured by a first (1st) lien position on the above referenced parcel. According to Aldea's management, the property has a current market value of approximately $2.7 million, leading to an estimated loan-to-value ratio of 29%. A full appraisal, acceptable to the Authority's staff will be required before the HELP II loan may be funded.

| | | |
|---|---|---|
| ***Financing Costs*** ..... | | **14,250** |
| Authority Fees ..... | $9,750 | |
| Appraisal ..... | 2,500 | |
| Title and Escrow Fees ..... | 2,000 | |
| ***Total Uses of Funds*** ..... | | **$828,250** |

## II. FINANCIAL STATEMENTS AND ANALYSIS

**ALDEA, INC.**
**CONSOLIDATED STATEMENT OF OPERATION**
**(UNRESTRICTED)**

| | As of June 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Revenue | | | |
| Program service fees* | $ 8,657,313 | $ 7,700,600 | $ 6,859,265 |
| Contributions and grants | 339,673 | 416,041 | 286,483 |
| Special events, net of expenses | 80,925 | 82,224 | 158,254 |
| Other income | 57,813 | 46,816 | 68,430 |
| Rental income | 6,000 | 11,200 | 37,200 |
| Interest income | 828 | 1,794 | 7,915 |
| Net assets released from program restrictions | 102,500 | 112,025 | 87,243 |
| Total revenue | 9,245,052 | 8,370,701 | 7,504,790 |
| Expenses | | | |
| Salaries | 5,186,770 | 4,890,859 | 4,173,106 |
| Employee benefits | 947,708 | 892,035 | 658,470 |
| Payroll taxes | 399,575 | 379,317 | 315,913 |
| Foster family payments | 916,831 | 568,165 | 639,025 |
| Occupancy expenses | 178,302 | 176,298 | 49,091 |
| Depreciation expense | 163,702 | 151,814 | 125,769 |
| Professional fees | 92,015 | 132,466 | 98,785 |
| Travel expense | 116,993 | 121,588 | 121,213 |
| Telephone | 138,722 | 117,765 | 96,374 |
| Others | 133,683 | 60,820 | 110,131 |
| Interest expense | 62,451 | 75,959 | 86,854 |
| Computer and equipment | 55,426 | 72,678 | 75,226 |
| Training and conferences | 69,945 | 69,209 | 42,498 |
| Repaired and maintenance | 57,016 | 66,786 | 69,511 |
| IT services | 89,487 | 65,642 | 51,371 |
| Insurance | 61,955 | 60,816 | 59,310 |
| Board and staff | 49,059 | 60,149 | 42,741 |
| Supplies | 73,006 | 58,963 | 66,764 |
| Food | 71,581 | 56,734 | 64,142 |
| Printing and publications | 24,023 | 48,711 | 39,042 |
| Offices supplies | 51,372 | 47,585 | 39,061 |
| Equipment leases | 48,092 | 44,414 | 43,409 |
| Dues and fees | 54,368 | 41,720 | 28,490 |
| Utilities | 38,404 | 38,078 | 46,029 |
| Impairment loss on assets held for sale | 155,000 | - | 239,874 |
| Total expenses | 9,235,486 | 8,298,571 | 7,382,199 |
| Change in unrestricted net assets | 9,566 | 72,130 | 122,591 |
| Unrestricted net assets at beginning of year | 4,290,329 | 4,218,200 | 4,095,609 |
| Unrestricted net assets end of year | $ 4,299,895 | $ 4,290,330 | $ 4,218,200 |

***Program Service Fees for FYE June 30, 2013**

| Payors Source | Percent |
|---|---|
| Medi-Cal | 33 |
| Residental Treatment and Foster Care | 32 |
| North Bay Regional Center | 12 |
| Solano County Mental Health Services | 9 |
| School Districts | 8 |
| Others | 6 |
| Total | 100 |

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**ALDEA, INC.**
**CONSOLIDATED BALANCE SHEET**

| | As of June 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| **ASSETS** | | | |
| Cash and Cash Equivalents | $ 882,037 | $ 983,399 | $ 1,072,656 |
| Account receivables | 1,108,024 | 947,301 | 750,344 |
| Prepaid receivables | 123,450 | 225,950 | 334,975 |
| Prepaid expenses and deposits | 276,320 | 156,907 | 56,568 |
| Property and equipment | 3,907,499 | 3,960,371 | 3,987,483 |
| Property held for sale | 220,000 | 375,000 | 375,000 |
| Total assets | $ 6,517,330 | $ 6,648,928 | $ 6,577,026 |
| **LIABILITIES AND NET ASSETS** | | | |
| Accounts payable | $ 154,350 | $ 104,088 | $ 107,778 |
| Accrued liabilities | 637,762 | 518,581 | 219,849 |
| Accrued unemployment liability | 16,794 | 16,212 | - |
| Deferred revenue | - | - | 15,800 |
| Note payable | 1,241,663 | 1,450,352 | 1,642,505 |
| Total liabilities | 2,050,569 | 2,089,233 | 1,985,932 |
| Net assets | | | |
| Unrestricted | 4,299,895 | 4,290,329 | 4,218,200 |
| Temporary restricted | 166,866 | 269,366 | 372,894 |
| Total net assets | 4,466,761 | 4,559,695 | 4,591,094 |
| Total liabilities and net assets | $ 6,517,330 | $ 6,648,928 | $ 6,577,026 |

**Financial Ratios:**

| | | | | |
|---|---|---|---|---|
| | | **Proforma [(a)]** | | |
| | | **FYE June 30, 2013** | | |
| Debt Service Coverage - Operating (x) | 3.15 | 2.92 | 2.18 | 3.88 |
| Debt to Unrestricted Net Assets (x) | 0.22 | 0.29 | 0.34 | 0.37 |
| Margin (%) | | 1.78 | 0.86 | 4.83 |
| Current Ratio (x) | | 2.95 | 3.62 | 6.45 |

(a) Recalculates FY 2013 audited results to include the impact of this proposed financing.

**Financial Discussion – Statement of Activities (Income Statement)**

**Aldea's income statement appears to exhibit adequate operating results during the review period.**

The change in unrestricted net assets appears to exhibit declining operating results ranging from $122,591 in FY 2011, $72,130 in FY 2012 and $9,566 in FY 2013. According to Aldea's management, the decreasing trend is primarily attributed to (1) impairment losses[1] of approximately $240,000 in FY 2011 and $155,000 in FY 2013 associated with the buildings located in the city of Vallejo; and (2) an increase in salaries and benefits due to new staffing and position upgrades for Aldea's growth in its Napa Children's Mental Health Clinic, Solano Mental Health Clinic, Solano C.A.R.E (Community Access to Resource and Education), and the Community Mental Health Clinic and Treatment Foster Care. In FY 2011, Aldea hired its first chief financial officer (CFO) and added a new position for the Director of Mental Health. In early FY 2013, Aldea upgraded the Director of Development and Human Resource Director positions related to its programs' growth described above.

***Particular Facts to Note:***

- According to Aldea's management, foster family payments increased from $639,025 in FY 2011 to $916,831 in FY 2013 mostly due to the increase in the rate for foster care payments and an increase in the number of foster children placed with the organization from approximately 55 in FY 2012 to 64 in FY 2013.

- During the review period, occupancy expenses increased from $49,091 in FY 2011 to $176,298 in FY 2012 primarily attributed to the relocation of the services to Solano County due the economic downturn. According to Aldea's management, the programs had outgrown the old buildings and the new location in Solano County improves access to public transportation for its clients.

- IT expenses increased from $51,371 in FY 2011 to $89,487 in FY 2013 due to centralizing Aldea's filing storage system, upgrading the security system, and implementing an electronic health record system.

- According to Aldea's management, the organization was awarded a one-time grant fund in October 2013 of approximately $500,000 by Auction Napa Valley to fund a new program designed for the early detection and treatment of adolescents and young adults at risk for an initial psychotic break. Aldea's management anticipates a new income stream associated with the operation of this new program.

[1] Impairment loss is a nonrecurring charge taken to write down an asset with an overstated booked value. An asset is considered to be value-impaired when its book value exceeds the future net cash flows expected to be received from it use.

**Financial Discussion – Statement of Financial Position (Balance Sheet)**

**Aldea's balance sheet appears to be financially healthy with a proforma debt service coverage ratio of 3.15x.**

With this proposed financing, Aldea's proforma debt to unrestricted net asset ratio remains low at 0.22, while the proforma debt service ratio improves slightly from 2.92x to 3.15x, indicating Aldea should be able to repay the HELP II loan.

***Particular Facts to Note:***

- According to Aldea's management, cash decreased from $1,072,656 in FY 2011 to $838,621 FY 2013, (which equates to 35 days cash on hand, slightly above the health care industry target ratio of a minimum of 30 days cash on hand) primarily due to cash being used for the implementation of its electronic health record system and making additional debt payments (principal reductions) of at least two or three times the amount the organization was obligated to pay.

- Account receivables increased from $750,344 in FY 2011 to $1,108,024 in FY 2013, primarily due to a turnover in Solano County contract management and fiscal staffing, which resulted in a delay in account receivables. According to Aldea's management, the collections on delinquent accounts are now current due to the efforts of new staff.

- According to Aldea's management, accrued liabilities increased from $219,849 in FY 2011 to $637,762 in FY 2013, primarily due to the change in the vacation accrual policy to allow a maximum of 240 hours rather than the previous 160 hours and an increase in salaries and benefits for the new staffing and position upgrades for the CFO, Director of Mental Health, Director of Development, and Human Resource Director positions.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

**(Client Served)**

| | As of June 30, | | |
|---|---|---|---|
| | **2013** | **2012** | **2011** |
| Total Client Served | 2,225 | 2,146 | 1,836 |

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## EXHIBIT 2

## OUTSTANDING DEBT

| Description | Original Amount | Amount Outstanding [(a)] As of June 30, 2013 | Estimated Amount Outstanding after Proposed Financing |
|---|---|---|---|
| **-EXISTING LONG-TERM DEBT:** | | | |
| **Rabobank, March 2008** | 1,884,000 | 848,202 | - |
| **CHFFA HELP II Loan, August 2007** | 236,000 | 161,490 | 161,490 |
| ***- PROPOSED NEW DEBT:*** | | | |
| ***CHFFA, HELP II Loan*** | | | **780,000** |
| ***- TOTAL DEBT*** | | **$ 1,009,692** | **$ 941,490** |

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

## EXHIBIT 3

## BACKGROUND AND LICENSURE

### Background

Established in 1972, Aldea, Inc. provides mental health services to children, families and adults with developmental disabilities in Napa and Solano Counties. Aldea's programs offer a continuum of mental health and child welfare services in a variety of settings: outpatient, day treatment, school-based programs, foster care, in-home support, nonpublic school and residential treatment programs. Aldea's services target children, most of whom are poor, neglected, abused or suffer from emotional disturbances, and adults in Napa and Sonoma Counties who are developmentally disabled.

The mission of Aldea is to improve lives and create bright futures for people we serve by providing professional mental health, child welfare and support services in a manner that respects the dignity and individuality of each person.

### Licensure, Certification and Accreditation

Aldea, Inc. is certified to operate as Community Mental Health Clinic by Napa County.

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Loan Program**

**Resolution Number HII-284**

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, **Aldea, Inc.** (the "Borrower"), a California nonprofit corporation and 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 **$780,000** 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. 15-year fixed rate;
2. First (1st) lien position on property located at 1546 1st Street Napa, CA 94559;
3. Loan to value ratio not to exceed 95%;
4. Corporate gross revenue pledge;
5. HELP II loan will not be used for foster family agency purposes;
6. Completed appraisal acceptable to the Authority staff; and
7. Verification of borrower funds.

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 loan may not be increased above the amount approved by the Authority and provided further that the loan continues 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: _____