

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Program

EXECUTIVE SUMMARY

<p>Applicant: Community Research Foundation, Inc. (“CRF”) 1202 Morena Blvd., Suite 300 San Diego, California 92110 San Diego County</p> <p>Project Site: 545 Laurel Street, San Diego, CA 92101</p> <p>Facility Type: Short-term acute residential treatment (Mental Health)</p>	<p>Amount Requested: \$400,000</p> <p>Requested Loan Term: 15 years</p> <p>Date Requested: December 2, 2004</p> <p>Resolution Number: HII-172</p>																				
<p>Policy Issue: Under the HELP II Loan Program guidelines, a first position lien is generally required on property and gross revenues. Staff recommends approval of an exception to this guideline. Please refer to page 2 of the Staff Summary and Recommendation for more detailed information.</p>																					
<p>Use of Loan Proceeds: Loan proceeds will be used to purchase a facility that CRF currently leases.</p>																					
<p>Type of Issue: HELP II Loan</p> <p>Prior HELP II Borrower: No</p>																					
<p>Financial Overview: CRF has consistently produced positive operating results through fiscal 2004. CRF is reporting a slight loss in the first quarter of fiscal 2004-5 due to expansion costs, but anticipates a profitable year. The balance sheet is healthy with net assets of over \$2 million in 2004. The organization will become slightly leveraged with the proposed loans, but debt service coverage remains good.</p>																					
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																					
<p>Staff Recommendation: Staff recommends the Authority approve a resolution for a HELP II Loan for Community Research Foundation, Inc. in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions, securing the necessary grant or loan financing, receiving an appraised value providing a total loan to value ratio not exceeding 95%, and subject to the fiscal 2004 final audit being materially consistent with the financial information presented in this report.</p>																					

STAFF SUMMARY AND RECOMMENDATION
The HELP II Program
Community Research Foundation, Inc. (“CRF”)
 December 2, 2004
 Resolution Number: HII-172

POLICY ISSUE: Under the HELP II Loan Program guidelines, the Authority requires a first position lien on the secured property and a gross revenue pledge. CRF is financing its project using loans from HELP II and NCBDC. Since the loan to value ratio meets the Authority’s guidelines at 95% and given CRF’s solid financial position and successful operating history, staff recommends the Authority accept a second position lien on the property behind the NCBDC loan.

I. PURPOSE OF FINANCING: CRF intends to purchase a facility it currently leases. The facility, known as the Vista Balboa Crisis Center, has provided alternatives to inpatient psychiatric hospitalization to over 500 individuals annually since 1995.

CRF desires to purchase the facility, since the current owners have indicated that the building will be sold at the end of CRF’s current lease in approximately 11 months and properties that are adequately-sized to operate such a program, are in very limited supply in San Diego. In addition, interest payments over the life of the loans will be more than \$500,000 less than CRF would be paying in rent for this facility.

Property Purchase.....**\$2,500,000**

The property is a two-story, 6,147 square foot, residential structure and a 563 square foot cottage, with a total capacity of 16 beds. It is operated as a short-term crisis residential treatment program to mentally disordered adults aged 18-59 years. The facility provides services to indigent, Medi-Cal eligible, and often homeless residents of San Diego County through funding provided mainly by the County Department of Mental Health Services.

Approximately 16% of the total cost of the purchase price will be funded with the proposed HELP II loan. National Cooperative Bank Development Corporation (NCBDC) has also committed to a \$1.235 million direct loan, which will be in first position. NCBDC is also expected to provide a six-month, interest-only loan of \$750,000, to be in third position. This loan is expected to be repaid shortly, upon receipt of a grant from the Centre City Development Corporation of San Diego. The appraised as-improved value on the property must be satisfactory to the Authority’s loan to value ratio policies, not to exceed 95%.

Financing Costs **25,000**

Authority Closing Fee..... 5,000
 NCBDC commitment fee..... 20,000

Total.....**\$2,525,000**

Financing structure:

- 15-year loan term, fully amortized.
- 180 equal monthly payments of approximately \$2,762 (total annual payments of approximately \$33,144).
- Total HELP II loan interest payments of approximately \$97,219.
- Maximum combined loan to value (consisting of direct loans through NCBDC of \$1.235 million, in 1st position, and a bridge loan of \$750,000, in 3rd position, and a HELP II loan of \$400,000) ratio of 95%.
- Second position lien (Subordinate to NCBDC loan) on the property located at 545 Laurel Street, San Diego, CA
- Corporate gross revenue pledge, second lien position (Subordinate to NCBDC).
- Verification of Purchase Contract.
- Verification of a property appraisal satisfactory to the Authority.

II. FINANCIAL STATEMENTS AND ANALYSIS:

COMMUNITY RESEARCH FOUNDATION, INC. STATEMENT OF ACTIVITIES

	For three months	For the Year Ended June 30,		
	ending September 30,	2004	2003	2002
	2004	2004	2003	2002
	(Unaudited)	(Unaudited)		
Revenues and Other Support				
Net patient service revenue	\$ 4,701,429	\$ 17,707,428	\$ 18,569,292	\$ 16,776,578
Donated services	-	20,262	145,900	126,602
Interest and dividend income	91	218	4,969	15,100
Rental income	17,496	80,782	138,105	118,393
Other operating revenue	40,307	73,813	93,749	171,727
Total Revenue	4,759,323	17,882,503	18,952,015	17,208,400
Operating Costs and Expenses				
Salaries and benefits	3,360,525	12,685,080	12,879,975	11,833,787
Donated services	-	20,262	145,900	126,602
Occupancy costs	405,219	1,444,125	1,784,053	1,429,008
Consultants	361,751	1,324,545	1,494,010	1,414,809
Supplies	243,236	834,053	925,354	846,326
Equipment rental and maintenance	30,532	86,313	105,870	238,704
Legal and accounting	35,485	152,597	236,964	207,582
Staff development and training	19,129	65,019	107,105	163,928
Insurance	80,815	263,401	263,521	153,903
Telephone	35,556	136,153	157,205	140,334
Printing and postage	12,746	42,079	57,303	53,053
Mileage and travel	23,908	69,140	60,748	49,308
Laboratory services	12,985	60,824	62,456	24,776
Interest	7,475	32,788	40,107	5,619
Depreciation	12,642	44,279	54,318	31,212
Other	147,425	328,844	371,445	424,507
Total Expenses	4,789,429	17,589,502	18,746,334	17,143,458
Income from operations	(30,106)	293,001	205,681	64,942
Non-operating gains/losses	-	-	1,983	(1,725)
Increase In Unrestricted Net Assets	(30,106)	293,001	207,664	63,217
Net Assets Beginning of Year	2,126,966	1,833,965	1,626,301	1,563,084
Net Assets, End Of Year	\$ 2,096,860	\$ 2,126,966	\$ 1,833,965	\$ 1,626,301

COMMUNITY RESEARCH FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION

	As of September 30,		As of June 30,	
	2004 (Unaudited)	2004 (Unaudited)	2003	2002
ASSETS				
Current Assets:				
Cash	\$ 1,926,589	\$ 1,902,316	\$ 1,232,793	\$ 2,571,078
Accounts receivable	1,715,154	1,807,847	1,889,213	579,216
Prepaid expenses	175,886	6,468	30,101	11,981
Deposits	163,823	135,148	126,094	123,164
Other current assets	-	-	-	6,124
Total operating assets	<u>3,981,452</u>	<u>3,851,779</u>	<u>3,278,201</u>	<u>3,291,563</u>
Property and Equipment, net	<u>444,397</u>	<u>429,126</u>	<u>484,273</u>	<u>159,222</u>
TOTAL ASSETS	<u><u>\$ 4,425,849</u></u>	<u><u>\$ 4,280,905</u></u>	<u><u>\$ 3,762,474</u></u>	<u><u>\$ 3,450,785</u></u>
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable & accrued expenses	\$ 529,715	\$ 551,540	\$ 419,275	\$ 525,444
Accrued payroll, benefits and taxes	885,194	873,493	804,010	871,593
TSA Employer-sponsored retirement plan	527,819	408,359	358,055	298,218
Capital leases	95,614	108,034	137,780	121,376
Mortgage payable	186,500	190,730	206,856	-
Other liabilities	131,640	22,090	2,533	7,853
TOTAL LIABILITIES	<u>2,356,482</u>	<u>2,154,246</u>	<u>1,928,509</u>	<u>1,824,484</u>
NET ASSETS				
Unrestricted	<u>2,069,367</u>	<u>2,126,659</u>	<u>1,833,965</u>	<u>1,626,301</u>
TOTAL LIABILITIES & NET ASSETS	<u><u>\$ 4,425,849</u></u>	<u><u>\$ 4,280,905</u></u>	<u><u>\$ 3,762,474</u></u>	<u><u>\$ 3,450,785</u></u>
Financial Ratios:				
	Pro forma (a)			
	FYE 2004	2004	2003	2002
Debt Service Coverage (x)	1.58	5.75	4.21	17.81
Debt/Unrestricted Net Assets (x)	1.26	0.14	0.21	0.08
Margin (%)		1.6%	1.1%	0.4%
Current Ratio (x)		1.98	1.91	1.81

(a) Recalculates 2004 unaudited results to include the impact of this proposed financing as well as the pending NCB direct loans in the amount of \$1,985,000 plus the rent savings of \$112,683. Proforma debt service coverage based on audited 2003 results is 1.98x.

Financial Discussion:

CRF has consistently produced positive operating results through the year ended June 30, 2004. CRF is reporting a slight loss in the first quarter of fiscal 2004-5 due to expansion costs, but anticipates a profitable year.

CRF has been consistently profitable in our review period, including a difficult 2004, when funding to several programs was reduced by the County, the source of nearly all of CRF's revenue. Management effected layoffs, terminated leased facilities, and reduced expenses across the board in order to downsize their services. CRF is highly dependent on its County contracts, but has shown an ability to be flexible.

CRF received a new \$3 million contract for the 2005 fiscal year to expand certain programs. Management attributes the loss for the three months ended September 30, 2004 to costs associated with this expansion, but expects they will be profitable by year-end.

The balance sheet is healthy with net assets of over \$2 million in 2004. The organization will become slightly leveraged with the proposed additional debt, but debt service coverage remains good.

The organization will become slightly leveraged with the proposed HELP II and NCB loans, with a proforma debt to unrestricted net asset ratio of 1.26x. This ratio will improve to 0.91x upon the expected receipt of a \$750,000 grant. CRF had previously purchased one of its residential treatment centers in August 2002.

CRF maintains a strong current ratio of at least 1.80x over the review period. Total net assets are growing with over \$2 million for the 12-month unaudited period. A proforma debt service coverage ratio of 1.58x indicates the ability to repay the additional loans.

III. UTILIZATION STATISTICS:

Type of Service	Fiscal Year Ending June 30,		
	<u>2003-2004</u> <small>(estimated) *</small>	<u>2002-2003</u>	<u>2001-2002</u>
	# Clients	# Clients	# Clients
Short-term crisis residential	2,250	2,254	2,163
Semi-supervised living residential	56	68	97
Residential treatment	40	40	37
Day Rehabilitative	0	341	670
Outpatient mental health	4,850	5,107	6,853
Medication support	5,290	5,572	4,931
Case management	1,680	1,768	1,811

* Final utilization numbers are not yet available for 2003-04.

IV. ORGANIZATION:

Background: CRF operates a system of twenty-nine community-based programs which provide residential, outpatient, day treatment, case management, pre-vocational training, socialization, and supported housing services to severely and persistently mentally ill adults, children, youth and adolescents. In addition to the community-based programs, CRF provides Housing Services whereby apartments are leased by CRF and then subleased to graduates of CRF's programs.

The first CRF program, the Turning Point Crisis Center, was designed in 1980 as an alternative to traditional, medical-model psychiatric hospital programs. In addition to its clinical programs, CRF conducts scientific research and educational programs related to the prevention and treatment of mental illness and to the psychosocial rehabilitation of mentally disabled individuals.

CRF's system includes the following programs:

Short-Term Acute Residential Treatment programs (START) – These six programs, also known as Crisis Residences, offer an alternative to hospitalization for adults in the acute phase of a mental illness. Located throughout San Diego County, they provide 24-hour attention of mental health professionals for voluntary clients in need of acute mental health care. The programs have a capacity of 11-14 beds with clients staying an average of eight days until their symptoms have been reduced and adequate community support can be arranged.

Transitional Residential Treatment Program (Casa Pacifica) – This residential program, the only transitional residential treatment facility in San Diego County, has 14 beds for clients who have a history of repeated psychiatric hospitalizations and unsuccessful attempts at community living.

Bio-Psychosocial Rehabilitation Centers – CRF operates Heartland Center in the East Region, which provides mental health services, pre-vocational training, medication support, case management, supported housing, and socialization.

Semi-Supervised Living Project – This program of 16 apartments in downtown San Diego and North Park, reintegrates homeless adults with serious and persistent mental illness back into the community by providing housing supported by case management services.

Client-run Psychosocial/Vocational Clubhouses – A network of three client clubhouses offer pre-vocational training and work skills development, transitional employment, job development, and socialization.

Outpatient programs – CRF operates 13 outpatient mental health programs. They provide a range of individual, couple, family and group counseling for adults, older adults, adolescents, and children.

The Psychiatric Emergency Response Team (PERT) –The PERT program teams up law enforcement officers with mental health professionals with the teams responding to law enforcement calls throughout San Diego County that have a mental health or crisis component. CRF provides administrative services for PERT, which is a subsidiary of CRF.

Licenses: CRF is licensed through the State Department of Social Services and is certified by the State Department of Mental Health. In addition, in May 2003, the organization was awarded a three-year accreditation for its Mental Health Crisis Stabilization Programs from the Commission on Accreditation of Rehabilitation Facilities (CARF).

Competition: CRF is the sole provider of short-term crisis residential treatment programs in San Diego County. CRF’s principal competitors for other mental health services are behavioral units of area hospitals as well as the County’s four mental health centers.

V. OUTSTANDING DEBT:

<u>Description</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 06/30/04 (a)</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Union Bank of CA, 2002	\$219,375	\$190,730	\$190,730
Pending:			
NCB direct loan, 2004		N/A	1,235,000
NCB bridge loan, 2004		N/A	750,000
Proposed:			
CHFFA HELP II Loan, 2004		N/A	400,000
TOTAL DEBT		<u>\$190,730</u>	<u>\$2,575,730</u>

(a) Includes current portion.

VI. SECTION 15438.5 OF THE ACT (Savings Pass Through):

It is the intent of the Legislature in enacting this part to provide financing only to health facilities that can demonstrate the financial feasibility of their projects. It is further the intent of the Legislature that all or part of any savings experienced by a participating health institution, as a result of that tax-exempt revenue bond funding, be passed on to the consuming public through lower charges or containment of the rate of increase in hospital rates.

CRF has provided a description of its savings pass through in **Exhibit A**.

VII. SECTION 15459.1 (b) OF THE ACT (Community Service Requirement):

As a condition of the issuance of revenue bonds, whether by the Authority or any local agency, each borrower shall give reasonable assurance to the Authority that the services of the health facility will be made available to all persons residing or employed in the area served by the facility. As part of this assurance, borrowers shall agree to a number of actions, including (a) to advise each person seeking services at the borrower’s facility as to the person’s potential eligibility for Medi-Cal and Medicare benefits or benefits from other governmental third-party payers, and (b) to post notices in appropriate areas within the facility regarding services being available to all in the service area. This agreement is a standard “Certification and Agreement Regarding Community Service Obligation”.

CRF has executed this certification and whether Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.

VIII. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for a HELP II Loan for Community Research Foundation, Inc. in an amount not to exceed \$400,000 for a term of 15 years subject to the standard HELP II loan provisions, securing the necessary grant or loan financing, receiving an appraised value providing a total loan to value ratio not exceeding 95%, and subject to the fiscal 2004 final audit being materially consistent with the financial information presented in this report.