

**CHFFA HELP II PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> CLARE Foundation, Inc. (“CLARE”) 909 Pico Boulevard Santa Monica, CA 90405 Los Angeles County</p> <p><b>Project Site:</b> 635 Westminster Avenue, Venice, CA 90291 (Los Angeles County)</p> <p><b>Facility Type:</b> Adult residential alcohol and drug abuse recovery or treatment facility</p> <p><b>Eligibility:</b> A qualified health facility pursuant to Government Code Section 15432(d) (14)</p> <p><b>Prior HELP II Borrower:</b> No</p>	<p><b>Amount Requested:</b> \$825,000</p> <p><b>Requested Loan Term:</b> 8-year fixed</p> <p><b>Authority Meeting Date:</b> August 29, 2013</p> <p><b>Resolution Number:</b> HII-280</p>
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**Background:** CLARE is a nonprofit organization that provides treatment, recovery, and prevention services for alcoholism and substance abuse to individuals, families and the community in the Los Angeles area. CLARE’s 10 residential, outpatient, and prevention programs have delivered services to more than 3,000 adults and 2,100 young people during FY 2012.

**Uses of Loan Proceeds:** Loan proceeds will be used to refinance CLARE’s existing California Statewide Communities Development Authority Revenue Bonds, Series 2003 (“CSCDA Series 2003 Bonds”), which has an approximate interest rate of 5% and were used to refund a portion of the County of Los Angeles Certificates of Participation Series B (“County of Los Angeles COPs”). The County of Los Angeles COPs were used to refinance the cost of acquisition and refurbishing various facilities owned and operated by CLARE throughout Los Angeles County. This refinance will result in total interest savings of approximately \$212,000 over the life of the loan due to the lower interest rate obtained from the HELP II loan.

**Financing Structure**

- 8-year fixed rate loan. (The borrower wishes to match the current maturity of the bonds.)
- 96 equal monthly payments of approximately \$9,677 (yearly payments of approximately \$116,123).
- First (1st) lien position on the property located at 635 Westminister Avenue, Venice, CA 90291.
- Corporate gross revenue pledge.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 67%).

**Financial Overview:** CLARE’s income statement appears to exhibit an overall positive operating result during the review period of FY 2010 through FY 2012. CLARE’s financial strength appears solid with a proforma debt service coverage ratio of 2.63x.

<b><u>Estimated Sources of Funds:</u></b>		<b><u>Estimated Uses of Funds:</u></b>	
HELP II loan, (1 <sup>st</sup> lien)	\$ 825,000	Refinance	\$ 940,131
Bond Reserve Fund*	145,918	Financing Costs	30,787
<b>Total Estimated Sources</b>	<b><u>\$ 970,918</u></b>	<b>Total Estimated Uses</b>	<b><u>\$ 970,918</u></b>

\* Transferred from the CSCDA Series 2003 Bonds.

**Due Diligence:** Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Community Service Obligation, Seismic and CEQA documentation. All documentation satisfies the Authority’s requirements.

**Parties of Interest:** Stewart Title of California, Inc.; California Statewide Communities Development Authority; and Office of Statewide Health Planning and Development.

**Staff Recommendation:** Staff recommends approval of Resolution Number HII-280 for CLARE Foundation, Inc., in an amount not to exceed \$825,000 for a term not to exceed 8 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:** CLARE plans to use the HELP II loan proceeds to refinance its CSCDA Series 2003 Bonds, which currently has an interest rate of approximately 5%. The proposed refinance will provide various benefits to CLARE, which include:

- Interest savings of approximately \$212,000 over the remaining eight years of the existing bonds.
- The removal of bond covenants/restrictions placed on CLARE as a result of the Cal-Mortgage insurance program including a bond reserve fund, certain bond covenants, and a blanket lien on five (5) properties that are owned by CLARE.
- Bond reserve funds of approximately \$145,000 will be used to pay a portion of the outstanding bond amount due on the CSCDA Series 2003 Bonds and will be applied to the financing costs associated with this transaction.

***CSCDA Series 2003 Bonds Refinancing* ..... \$940,131**

CLARE intends to use bond proceeds to refinance the CSCDA Series 2003 Bonds that were originally issued in the aggregate principal amount of \$3.79 million. These bonds were originally used to refund a portion of the County of Los Angeles COPs. The County of Los Angeles COPs were used to refinance the cost of acquisition and refurbishing facilities owned by CLARE located at:

- 844-846 Pico Boulevard, Santa Monica, CA 90405
- 907-909 Pico Boulevard, Santa Monica, CA 90405
- 1865 Ninth Street, Santa Monica, CA 90404
- 635 Westminster Boulevard, Venice, CA 90291
- 3823 Sawtelle Boulevard, Culver City, CA 90066

The HELP II loan will be secured by a first (1st) lien position on the property located at 635 Westminster Avenue, Venice, CA, 90291. The appraised value of the property is \$1.235 million based on the appraisal dated July 30, 2013, thus the estimated loan to value ratio will be approximately 67%.

***Financing Costs* ..... 30,787**

Title and Escrow Fees.....	\$20,474
Authority Fees.....	<u>10,313</u>

***Estimated Uses of Funds* ..... \$970,918**

## II. FINANCIAL STATEMENTS AND ANALYSIS

**CLARE Foundation, Inc.**  
**Statements of Activities**  
**(Unrestricted)**

	<b>Period ending June 30,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Support and Revenues:</b>			
Government grants	\$ 2,467,795	\$ 2,761,527	\$ 2,822,524
Contributions	622,686	739,936	1,326,581
In-kind contributions	132,934	150,480	216,428
Service fees	1,253,098	1,125,110	1,029,662
Program revenue	23,266	15,006	12,745
Fundraising events, net	341,127	214,041	233,385
Interest and dividends	32,658	28,866	33,360
Investment gains/losses	(4,227)	(10,380)	7,208
Net assets released from restrictions	285,175	5,325	66,669
Total Support and Revenues	<u>5,154,512</u>	<u>5,029,911</u>	<u>5,748,562</u>
<b>Expenses:</b>			
Salaries and wages	2,146,055	2,359,780	2,215,274
Payroll taxes and benefits	630,006	687,792	616,624
Depreciation and amortization	327,759	300,109	216,465
Professional fees	264,881	445,208	561,212
Utilities	193,910	184,384	167,575
Interest Expense	148,627	142,263	138,548
Food	143,014	200,287	168,207
Donated goods and food	132,934	150,480	216,428
Supplies	100,249	112,388	95,135
Rent	97,951	104,997	105,841
Equipment expenses	91,154	115,520	76,998
Repairs and maintenance	88,148	159,998	170,861
Insurance	64,664	57,154	63,677
Telephone	60,137	64,593	66,115
Vehicle expense	26,224	19,808	21,626
Printing	23,684	23,094	21,285
Other operating expenses	21,684	31,275	30,111
Property taxes	20,997	20,539	20,680
Dues and fees	20,309	40,843	11,643
Bus tokens	20,029	26,536	15,521
Recreation	15,316	12,901	9,952
Office supplies	14,819	20,646	15,481
Bank charges	14,757	15,020	9,690
Board expense	13,911	6,982	6,277
Vehicle insurance	11,740	8,322	13,301
DUI fees	11,668	11,512	11,876
Payroll expense	9,700	10,683	9,341
Amortization of bond costs	8,822	8,822	8,823
Training	8,281	26,961	32,485
Total Expenses	<u>4,731,430</u>	<u>5,368,897</u>	<u>5,117,052</u>

<b>Change in Unrestricted Net Assets</b>	423,082	(338,986)	631,510
Temporarily Restricted Net Assets			
Net assets subjects to restrictions	107,166	156,667	-
Net assets release from restrictions	<u>(285,175)</u>	<u>(5,325)</u>	<u>(66,669)</u>
Change in temporarily restricted net assets	<u>(178,009)</u>	<u>151,342</u>	<u>(66,669)</u>
Change in net assets	245,073	(187,644)	564,841
Unrestricted net assets at beginning of year	<u>6,210,112</u>	<u>6,397,756</u>	<u>5,832,915</u>
Unrestricted net assets end of year	<u>\$ 6,455,185</u>	<u>\$ 6,210,112</u>	<u>\$ 6,397,756</u>

**Net Revenue for FY 2012**

<u>Payors Source</u>	<u>Percent</u>
Government	48.6
Fees	24.7
Fundraising	23.1
In-Kind	2.6
Other	<u>1.0</u>
Total	<u>100.0</u>

**CLARE Foundation, Inc.**  
**Statements of Financial Position**

	Period ending June 30,		
	2012	2011	2010
<b>Assets:</b>			
Current assets			
Cash and cash equivalents	\$ 1,501,193	\$ 1,207,660	\$ 811,653
Investments	864,414	982,631	1,540,043
Investments held by trustee	252,253	249,044	250,336
Pledges receivable	56,667	68,882	155,090
Contracts, grants, and other receivables, net	367,164	485,004	442,933
Prepaid expenses and other assets	63,526	33,501	113,552
Total Current assets	<u>3,105,217</u>	<u>3,026,722</u>	<u>3,313,607</u>
Non-Current Assets			
Property and equipment	12,620,087	11,066,280	10,258,989
Less accumulated depreciation and amortization	<u>(4,443,990)</u>	<u>(4,116,231)</u>	<u>(3,816,122)</u>
Property and equipment, net	8,176,097	6,950,049	6,442,867
Unamortized bond cost	70,610	79,432	88,254
Total Non-current assets	<u>8,246,707</u>	<u>7,029,481</u>	<u>-</u>
Total assets	<u>\$ 11,351,924</u>	<u>\$ 10,056,203</u>	<u>\$ 9,844,728</u>
<b>Liabilities and Net Assets:</b>			
Current liabilities			
Accounts payable	97,020	333,136	161,117
Accrued expenses	415,994	298,181	246,654
Current portion of long-term debt	<u>129,000</u>	<u>119,000</u>	<u>108,004</u>
Total Current liabilities	642,014	750,317	515,775
Long-term debt	<u>4,254,725</u>	<u>3,095,774</u>	<u>2,931,197</u>
Total liabilities	<u>4,896,739</u>	<u>3,846,091</u>	<u>3,446,972</u>
Net assets:			
Unrestricted			
Undesignated	5,209,824	4,810,172	5,166,899
Board designated cash reserve	<u>1,022,028</u>	<u>998,598</u>	<u>980,857</u>
Total unrestricted net assets	6,231,852	5,808,770	6,147,756
Temporarily restricted	<u>223,333</u>	<u>401,342</u>	<u>250,000</u>
Total net assets	<u>6,455,185</u>	<u>6,210,112</u>	<u>6,397,756</u>
Total liabilities and net assets	<u>\$ 11,351,924</u>	<u>\$ 10,056,203</u>	<u>\$ 9,844,728</u>

**Financial Ratios:**

	Proforma <sup>(a)</sup>			
	<u>FYE June 30, 2012</u>			
Debt Service Coverage - Operating (x)	2.63	2.31	0.43	3.73
Debt to Unrestricted Net Assets (x)	0.71	0.71	0.57	0.51
Margin (%)	8.21	(6.74)	10.99	10.99
Current Ratio (x)	4.84	4.03	6.42	6.42

<sup>(a)</sup> Recalculates FY 2012 audited results to include the impact of this proposed financing.

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

**CLARE's income statement appears to exhibit an overall positive operating result during the review period FY 2010 through FY 2012.**

The change in unrestricted net assets has varied over the review period from approximately \$631,500 in FY 2010 to (\$339,000) in FY 2011 to \$423,000 in FY 2012. According to CLARE's management, the loss in FY 2011 was mainly due to the opening of a newly rebuilt detox center and the associated costs. Some of the costs included the renovation of the detox center, the purchase of new equipment, and the hiring of new staff.

### **Particular Facts to Note:**

- During the review period, revenues declined by 10.33% from approximately \$5.75 million in FY 2010 to approximately \$5.15 million in FY 2012. Expenses also declined at a lesser rate, with a decrease of 7.54%. CLARE's management states there was a decrease in revenues due to a decline in the Los Angeles County Government Funding including the loss of funds from Proposition 36<sup>1</sup>. This decrease of funding caused CLARE's management to reduce staff and change the residential bed matrix. To supplement the reduction in paid staff, CLARE's management recruited Master's level interns to provide the administrative and support services.
- Contributions decreased significantly from approximately \$1.3 million in FY 2010 to approximately \$622,000 in FY 2012. CLARE's management indicated in FY 2010 CLARE conducted a capital campaign to assist with the rehabilitation as well as the construction costs of the detox and primary program buildings located at 905-907 Pico Boulevard. During FY 2010, CLARE raised \$828,000 for the project. This capital campaign was a one-time influx of revenue for the project.
- The percentage of client visits increased significantly from 32,735 in FY 2010 to 35,521 in FY 2012. CLARE's management attributes the increase to the screening and referral programs, which are non-revenue generating programs. The screening and referral program is offered by phone, email or in person and approximately 10% of the clients from the screening and referral program are placed into one of CLARE's other programs, while the remaining are offered information, counseling, or a referral to another agency or clinic that may be able to better meet the client's needs. CLARE counts the clients from the screening and referral programs as clients served but only a percentage are placed into one of CLARE's other programs.

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<sup>1</sup> California Proposition 36, the Substance Abuse and Crime Prevention Act of 2000

## **Financial Discussion – Statements of Financial Position (Balance Sheet)**

**CLARE appears to have a solid financial position with an operating proforma debt service coverage ratio of 2.63x.**

Although CLARE's debt service coverage ratio has declined from 3.73x in FY 2010 to 2.31x in FY 2012, its proforma debt service coverage ratio improves to 2.63x after this financing and it appears to remain in a solid financial position to repay the HELP II loan. The HELP II loan will not add additional debt to CLARE and will allow CLARE to achieve an interest savings of approximately \$212,000 over the remaining eight years of the existing CSCDA Series 2003 Bonds.

### *Particular Facts to Note:*

- CLARE's cash position appears to be very strong with approximately \$1.5 million in cash and cash equivalent, which represents a solid 196 days cash on hand as of June 30, 2012, substantially above the Authority's 30-day target level for days cash on hand.
- CLARE's liabilities increased from approximately \$3.4 million in FY 2010 to approximately \$4.9 million in FY 2012 due to costs associated with the renovation of the newly rebuilt detox center that opened in December 2012, located at 905/907 Pico Boulevard, Santa Monica, CA, 90404.

**EXHIBIT 1**

**UTILIZATION STATISTICS**

**Clients Served  
Ended June 30,**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Totals</b>	35,521	33,140	32,735



**EXHIBIT 2**  
**OUTSTANDING DEBT**

Description	Original Amount	Amount Outstanding <sup>(a)</sup> As of June 30, 2012	Estimated Amount Outstanding after Proposed Financing
<b>-EXISTING LONG-TERM DEBT:</b>			
Chase Bank Mortgage Loan, July 2000	\$ 350,000	\$ 280,381	\$ 280,381
CSCDA 2003 Bonds Series A, April 2003	3,790,000	1,125,000	-
Note payable, January 2006 (b)	600,000	535,515	535,515
CA Department of Housing and Community Development, July 2010 (c)	547,000	547,000	547,000
CA Department of Housing and Community Development, July 2010 (c)	436,820	436,820	436,820
CA Department of Housing and Community Development, November 2012 (d)	550,492	550,492	550,492
CA Department of Housing and Community Development, November 2012 (d)	908,067	908,067	908,067
<b>- PROPOSED NEW DEBT:</b>			
<b>CHFFA Help II Loan</b>			<b>825,000</b>
<b>- TOTAL DEBT</b>		<b>\$ 4,383,275</b>	<b>\$ 4,083,275</b>

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

(b) Note payable to two individuals secured by deed of trust on property located at 1002 Pico Boulevard, Santa Monica, CA.

(c) Principal and interest of loan to be forgiven at the completion of seven-year (7) service agreement ending July 31, 2017.

(d) Principal and interest of loan to be forgiven at the completion of seven-year (7) service agreement estimated to be completed November 2019.

## **EXHIBIT 3**

### **BACKGROUND AND LICENSURE**

#### **Background**

CLARE Foundation, Inc. is a nonprofit organization that began more than 40 years ago as a group of concerned citizens bringing food and blankets to homeless alcoholics on the beaches of Santa Monica and Venice and has since transformed into a multi-site alcoholic and drug abuse treatment provider with eleven (11) residential, outpatient and community-based programs offering culturally sensitive English and Spanish recovery services to a diverse population of men, women, children, the homeless, those facing criminal prosecution for drug and alcohol offenses and the general adult population throughout Los Angeles County.

At CLARE, recovery involves individual effort, the support of others, and a clean, secure and sober environment. CLARE serves more than 3,000 adults and 2,000 youth each year, and reaches another 27,000 individuals with information, counseling and referrals.

#### **Licensing:**

Each CLARE Foundation, Inc. facility is licensed as an adult residential alcohol and/or drug abuse recovery or treatment facility by the State of California Department of Alcohol and Drug Programs.

# CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

## The HELP II Program

### Resolution Number HII-280

#### 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, **CLARE Foundation, 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 **\$825,000** for a term not to exceed **eight 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. 8-year fixed rate loan;
2. Corporate gross revenue pledge;
3. First (1<sup>st</sup>) lien position on property located at 635 Westminster Avenue, Venice, CA 90291;
4. Loan to value ratio not to exceed 95%; and
5. Verification of Borrower’s funds to close escrow.

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: \_\_\_\_\_