CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Social Model Recovery Systems, Inc. ("SMRS") 223 East Rowland Street Covina, CA 91723 Los Angeles County	**Amount Requested:** **Date Requested:** **Requested Loan Term:** **Resolution Number:**	$5,000,000 February 27, 2014 Up to 40 Years 395

Project Sites: See Exhibit 1
Facility Types: Chemical Dependency Rehabilitation; Mental Health
Eligibility: Government Code 15432(d)
Prior Borrower: Yes (date of last CHFFA issue – February 2005)

Background: Incorporated in 1986, SMRS provides direct treatment services at eight locations in Los Angeles and Orange Counties. Services are directed at those whose lives have become unmanageable due to alcohol and other drug problems and/or whose mental health issues are interfering with leading productive lives. In addition, SMRS operates a community-based alcohol and drug prevention program in the Central City East area in downtown Los Angeles. The program engages the most vulnerable populations of Central City East to challenge systemic conditions and social disparities that threaten a healthy environment. In FY 2013, SMRS served approximately 541 clients throughout its facilities.

Use of Proceeds: Bond proceeds will be used to refund the CHFFA/Social Model Recovery Systems Series 2001 and Series 2005 Bonds and to refinance a loan assumed from the acquisition of Mid Valley Recovery Services, Inc. ("MVRS"). SMRS expects to achieve approximately $68,000 in net present value savings from the proposed refunding over the life of the bonds. SMRS will also use a portion of the bond proceeds to renovate certain existing facilities and to acquire new facilities (recovery home).

Type of Issue: Negotiated public offering with variable rate <u>taxable</u> bonds (expected minimum denominations of $5,000)
Credit Enhancement: Federal Home Loan Bank; Preferred Bank letter of credit
Expected Credit Rating: AAA S&P based on Federal Home Loan Bank
Financing Team: *Please see Exhibit 2 to identify possible conflicts of interest*

Financial Overview: SMRS' income statement appears to exhibit fluctuating growth in operating results and revenue during the review period. SMRS' financial position appears to be improving with a pro-forma debt service coverage ratio of 1.51x.

Estimated Sources of Funds:		**Estimated Uses of Funds:**	
Par amount of bonds	$ 5,000,000	Renovations & Future Acquisition	$ 1,615,170
		Refunding	1,546,453
		Refinancing	859,000
		Acquisition	460,000
		Financing costs	519,377
Total Estimated Sources	$ 5,000,000	**Total Estimated Uses**	$ 5,000,000

Legal Review: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, CEQA, and the Iran Contracting Act Certificate documentation. All documentation satisfies the Authority's requirements.

Staff Recommendation: Staff recommends the Authority approve Resolution Number 395 in an amount not to exceed $5,000,000 subject to the conditions in the resolution, including a rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Fieldman Rolapp & Associates, the Authority's financial advisor, concur with the Authority's staff recommendation.

(BAL)

I. PURPOSE OF FINANCING:

SMRS requests $5,000,000 in CHFFA Variable Rate Taxable Bonds Series 2014 for the refunding of prior CHFFA bonds, refinancing a loan assumed from the acquisition of MVRS, renovating existing facilities, and for the acquisition of Bimini Recovery Home. The new bond issue will allow SMRS to consolidate debt, remove restrictive Cal-Mortgage covenants, provide greater financial flexibility, and cash flow savings. SMRS expects the refunding portion of the bonds to achieve approximately $68,000 in net present value savings over the life of the bonds. With the implementation of the Affordable Care Act, potential clients will have greater choices as to which facility they select to receive treatment. SMRS will use a portion of the bond proceeds to renovate existing facilities in order to attract more potential clients.

Renovations & Future Acquisition.. $1,615,170

SMRS will use a portion of the proceeds to purchase an existing substance abuse facility as well as to renovate existing SMRS facilities. Renovation projects will include installing new roofs, rehabilitating buildings, reconstructing handicap accessible areas, repaving a parking area, installing new carpet, updating the exterior painting and landscaping, and replacing furniture and appliances.

The following facilities have been identified for consideration for future acquisition:

- **Rena B –** 4445 Burns Avenue, Los Angeles, CA 90029
  100 bed, alcohol and drug rehabilitation facility for men and women
- **Royal Palms –** 360 S. Westlake Avenue, Los Angeles, CA 90057
  135 bed, alcohol and drug rehabilitation facility for men

The following sites have been identified as existing facilities for renovations:

- **Mariposa –** 453 S. Indiana Street, Los Angeles, CA 90063
- **Omni Center –** 3430 Cogswell Road, El Monte, CA 91732
- **River Community –** 23701 E. Fork Road, Azusa, CA 91702
- **Sabina House –** 3543 Sabina Street, Los Angeles, CA 90023
- **Touchstones –** 525 N. Parker Street, Orange, CA 92868

Refunding.. 1,546,453

CHFFA/ Social Model Recovery Systems Series 2001 Bonds
Proceeds from these bonds were used to purchase and remodel SMRS' 22,000 square feet River Community property, which was a 38-bed residential treatment facility located on a 70-acre site in Angeles National Forest. The bonds were originally issued in the amount of $1,890,000, and as of fiscal year-end June 30, 2013, the outstanding amount was $1,245,000.

CHFFA/ Social Model Recovery Systems Series 2005 Bonds
Proceeds from these bonds were used to refinance the 1994 CHFFA Series B STARTS Bonds, which were used to purchase the Touchstones Adolescent Alcohol and Other Drug Treatment Services property located at 525 North Parker Street in Orange, California. The bonds were originally issued in the amount of $955,000, and as of fiscal year-end June 30, 2013, the outstanding amount was $590,000.

Refinancing*..** ***859,000

In July 2011, SMRS acquired MVRS, a health facility that provided similar services in the San Gabriel Valley, and assumed a note issued by the California Statewide Communities Development Authority for the benefit of MVRS. Proceeds of the note were used to finance the acquisition of three residential treatment facilities, now operated by SMRS, known as Omni Center, Mariposa, and Sabina House. The note was originally issued in February 2004 for the principal amount of $1,836,000, and is currently outstanding in the principal amount of $815,000 with an interest rate of 5.59%.

SMRS merged with Stepping Stones Home; a residential treatment facility located at 17727 East Cypress, Covina, CA, and assumed a loan from a private party. Proceeds of the loan were used to finance the acquisition of Stepping Stones Home. The loan was originally issued in March 1999 for the principal amount of $110,000, and is currently outstanding in the principal amount of $45,000 with an interest rate of 6.5%.

Acquisition*..** ***460,000

SMRS will use part of the proceeds to purchase Bimini Recovery Home (Bimini) for $460,000. Located at 155 Bimini Place, Los Angeles, California, Bimini offers residential drug and alcohol treatment for adult men and women. Built in 1913, the 15,590 square foot facility encompasses two floors and provides 86 beds. The acquisition will expand SMRS' capacity while reducing the facility's operating costs. The Bimini transaction is set to close concurrently with the bond issuance.

Financing Costs*..** ***519,377

Estimated interest rate cap[1]	$250,000	
Estimated cost of issuance..................................	188,127	
Estimated underwriter's discount........................	81,250	
Total Estimated Uses of Funds		***$5,000,000***

[1] SMRS will purchase a LIBOR index policy to cap the maximum 30- LIBOR Index Rate at 5%, which will protect SMRS in an environment of increasing interest rates.

II. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

After reviewing SMRS' credit profile, including its current financial profile, prior bond transactions and considering what the market will support, SMRS, Fieldman, Rolapp & Associates, Inc. (FRA), and the underwriter have concluded the covenants listed below align the interests of SMRS, CHFFA, and the investors and therefore are appropriate for this transaction. SMRS, FRA, and the underwriter note these covenants are consistent with covenants that have applied to SMRS' prior bond transactions and that SMRS' current financial situation does not suggest additional covenants should be required.

<u>The following covenants are applicable to this transaction:</u>

Unconditional Promise to Pay. *SMRS agrees to pay the Trustee all amounts required for principal, interest or reserve deposits and other payments and expenses designated in the Loan Agreement. The primary source of payment for SMRS's obligations under the Loan Agreement will be the gross revenues of SMRS.*

Mortgage or Deed of Trust. *SMRS's obligations under its Loan Agreement will be secured by deeds of trust on all of its facilities.*

Pledge of Gross Revenues. *SMRS pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee will have control if SMRS defaults on its payments.*

Negative Pledge Against Future Liens. *SMRS agrees not to create or assume any Lien upon SMRS's Property other than the Permitted Encumbrances.*

Limited Permitted Encumbrances. *SMRS is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement.*

Debt Service Coverage Requirement. *The Loan Agreement and the Regulatory Agreement will contain a debt service coverage requirement based on not less than 1.35 times annual debt service. A debt service coverage requirement is a ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments. This ratio can be based either on annual debt service for the next 12-months or maximum annual debt over the life of the Bonds.*

Additional Debt Limitation. *SMRS agrees not to incur additional Indebtedness unless authorized by the Loan Agreement.*

Disposition of Cash and Property Limitations. *SMRS agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by the Loan Agreement.*

Comply with SEC Rule 15c2-12. *SMRS will take such action as is necessary to comply with SEC Rule 15c2-12. The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or SMRS contractually agrees to disclose designated financial and operating information to the marketplace during the life of the Bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Limitations on Consolidation, Merger, Acquisition, Sale or Conveyance. *SMRS has agreed not to consolidate or merge with any corporation or acquire substantially all of the assets of an entity or sell or convey all or substantially all of its assets without the consent of the Letter of Credit Bank.*

Staff and Fieldman Rolapp & Associates have reviewed the entirety of this financing package and find it to be acceptable.

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III. FINANCIAL STATEMENTS AND ANALYSIS:

Social Model Recovery Systems, Inc.
Statement of Activities
(unrestricted)

	For the year ended June 30,		
	2013	**2012**	**2011**
Revenues and Support: [b]			
Government Contracts	$ 5,322,703	$ 5,269,479	$ 3,675,507
Government Subcontracts	48,720	48,652	56,409
Networking/TA/CEU fees	17,990	24,344	33,504
Participant Fees	1,810,888	1,748,762	1,464,310
Contributions	26,217	7,674	6,759
Interest and Dividends	1,005	3,444	1,188
Grant Revenue	37,000	34,323	27,500
DMH EHR Initiative	52,425	-	-
Other Revenue	70,549	17,030	35,877
25 Year Anniversary Gala	125	61,290	-
Total Revenues and Support	7,387,622	7,214,998	5,301,054
Expenses			
Salaries	3,803,738	3,633,816	2,751,090
Employee Benefits	1,025,033	975,868	667,280
Equipment Leases & Interest	47,685	49,811	27,741
Facilities Mortgage Interest	152,407	164,156	108,609
Facilities Leases & Property Taxes	322,451	383,439	322,849
Food & Kitchen Supplies	185,343	181,147	100,444
Insurance	87,399	85,869	61,308
Marketing, Outreach, & Development	74,023	47,198	51,296
Networking Events and TA	(601)	7,168	2,063
Participant Supplies, Meds & Labs	147,593	168,091	87,228
Professional Fees and Consultants	279,466	315,173	316,721
EHR Development Costs	37,017	-	(2,375)
Staff Exp, Office, Tele, Postage/Printing	522,730	488,486	405,526
Vehicle Operations & Maintenance	31,751	37,080	27,818
Utilities & Building Maintenance	308,056	286,692	157,797
Depreciation	222,796	208,234	104,940
Restricted Grant Funds	32,163	-	6,100
25 Year Anniversary Gala	-	17,083	-
Total Expenses	7,279,049	7,049,310	5,196,434
Change in net assets from operations	108,573	165,688	104,620
Excess fair value of net assets received in acquisition of Mid Valley Recovery Services, Inc.	-	2,333,224	-
Net assets released from restriction	-	75,000	103,000
Change in net assets with non-operating gain	108,573	2,573,912	207,620
Net assets beginning of year	4,033,538	1,459,626	1,252,006
Net assets end of year	$ 4,142,111	$ 4,033,538	$ 1,459,626

Revenue and Support
FYE June 30, 2013

[b] **Payor Source**	**Percent**
Government contracts	72
Participant fees	25
Other	3
Total	100

Social Model Recovery Systems, Inc.
Statement of Financial Position

ASSETS	As of June 30, 2013	2012	2011
Current Assets:			
Cash	$ 395,204	$ 290,516	$ 243,971
Contracts and accounts receivable	1,730,177	1,470,244	1,129,189
Prepaid expenses	92,579	75,171	60,172
Total current assets	2,217,960	1,835,931	1,433,332
Property and equipment, net	5,316,375	5,486,471	2,320,063
Other Assets:			
Debt service reserve funds	254,644	254,006	254,777
Bond issuance cost	40,783	47,981	-
Deposits and other assets	24,205	24,205	18,725
Total assets	$ 7,853,967	$ 7,648,594	$ 4,026,897
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable and accrued expenses	$ 537,920	$ 483,945	$ 376,699
Current portion of long-term debt	304,260	268,276	153,612
Deferred revenue	165,535	-	-
Total current liabilities	1,007,715	752,221	530,311
Other Liabilities:			
Deferred revenue	130,000	130,000	-
Long-term debt	2,574,141	2,732,835	1,961,960
Total liabilities	3,711,856	3,615,056	2,492,271
Net Assets:			
Unrestricted	4,142,111	4,033,538	1,459,626
Temporarily restricted	-	-	75,000
Total net assets	4,142,111	4,033,538	1,534,626
Total liabilities and net assets	$ 7,853,967	$ 7,648,594	$ 4,026,897

Financial Ratios:	Proforma [a] FYE June 30, 2013	2013	2012	2011
Debt service coverage (x) -- Operating	1.51	1.15	1.68	1.20
Debt service coverage (x) -- Net Income	1.51	1.15	9.14	1.59
Debt/Unrestricted Net Assets (x)	1.25	0.69	0.74	1.45
Margin (%)		1.47	2.30	1.97
Current Ratio (x)		2.20	2.44	2.70

[a] Recalculates FYE June 2013 results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

SMRS' income statement appears to exhibit fluctuating growth in operating results and revenue during the review period.

On July 1, 2011, SMRS acquired MVRS, which appears to be the main factor for the strong growth in revenues and net assets as well as expenses in FY 2012. SMRS contends the modest growth in FY 2013 reflects SMRS' current operations. SMRS' operating revenues significantly increased by approximately 36% in FY 2012 but then leveled off in FY 2013, with an increase of approximately 2%. The MVRS acquisition also appears to have contributed to an increase of approximately $2.3 million to SMRS' net assets in FY 2012.

Nearly all of SMRS' revenue is derived from government contracts and participant fees, accounting for approximately 72% and 25% of total revenue, respectively. Government contract revenue grew approximately 43% in FY 2012 from approximately $3.7 million to nearly $5.3 million, and then increased nominally by approximately 1% in FY 2013 to slightly more than $5.3 million. According to management, with the implementation of the Affordable Care Act (ACA) and Medicaid expansion, SMRS expects its contract with the Los Angeles County Department of Mental Health (LACDMH) to also increase as more individuals become eligible for services. SMRS currently operates at near capacity on an ongoing basis, and according to management, if revenue from government contracts were to decrease, SMRS would pursue other opportunities within the private sector. Participant fees rose from approximately $1.5 million in FY 2011 to approximately $1.8 million in FY 2013, an increase of about 24%, which appears to be primarily due to the MVRS acquisition in FY 2012. According to management, SMRS expects participant fees to continue growing in the coming years as the number of individuals insured through Medi-Cal and private insurance increases with the implementation of the ACA.

Particular Facts to Note:

- Total expenses grew approximately 40% with salaries and employee benefits accounting for the bulk of the increase. Salaries grew from approximately $2.7 million in FY 2011 to approximately $3.8 million in FY 2013, while employee benefits increased from approximately $667,000 to approximately $1.0 million over the same period. Including the MVRS acquisition in FY 2012, employee salaries and benefits combined seem to have remained consistent at approximately 65% - 66% of total expenses throughout the review period.

- SMRS' total revenue grew from approximately $5.3 million in FY 2011 to approximately $7.4 million in FY 2013, an increase of approximately 39%.

- Change in net assets from operations grew from approximately $105,000 in FY 2011 to approximately $165,000 in FY 2012, but then fell to approximately $109,000 in FY 2013. In FY 2012, SMRS earned approximately $61,000 in one-time revenue from a 25-Year Anniversary Gala. SMRS' change in net assets from operations grew at a modest rate of approximately 4% from FY 2011 to FY 2013.

- In FY 2013, SMRS received revenue of approximately $52,000 through the Los Angeles County Department of Mental Health for the Electronic Health Records Initiative. It was the first year SMRS was eligible for funding through the Electronic Health Records Incentive Program, and SMRS is eligible to receive the funding for up to four years.

Financial Discussion – Statement of Financial Position (Balance Sheet)

SMRS appears to have an improving financial position with a pro-forma debt service coverage ratio of 1.51x.

SMRS' debt-to-unrestricted net assets steadily declined from 1.45x in FY 2011 to 0.74x in FY 2012, and then to 0.69x in FY 2013. With the new bond issue, SMRS' pro-forma debt-to-unrestricted net assets will rise to 1.25x. Although SMRS is becoming increasingly leveraged, the company will likely be able to manage the additional debt as the proposed financing will decrease SMRS' annual debt service payments.

Particular Facts to Note:

- Contracts and accounts receivable significantly increased over the review period, from approximately $1.1 million in FY 2011 to approximately $1.7 million in FY 2013. According to management, the LACDMH is SMRS' principal customer and much of the funding is derived through Medi-Cal reimbursement. Historically, it has taken five (5) to six (6) years to fully reconcile each fiscal year's contract; therefore, not all funds are reimbursed during a contract's fiscal year.

- SMRS has improved its cash position from approximately $244,000 in FY 2011 to approximately $395,000 in FY 2013; however, SMRS' days cash on hand remains low at 20.4 days. According to management, SMRS expects a cash savings of over $130,000 per year as a result of this financing, allowing for a significant increase in cash-on-hand.

- With the acquisition of MVRS in FY 2012, SMRS' Property and equipment grew nearly 137%, from approximately $2.3 million in FY 2011 to approximately $5.5 million in FY 2012.

- Accounts payable steadily increased from approximately $377,000 in FY 2011 to approximately $484,000 in FY 2012 and to approximately $538,000 in FY 2013. According to management, SMRS makes payments to some of its vendors immediately after the beginning of each fiscal year, thus reflecting an inflated accounts payable as of the fiscal year-end date.

- SMRS' long-term debt grew approximately 39% from FY 2011 to FY 2012, totaling approximately $2.0 million and approximately $2.7 million, respectively. In FY 2012, SMRS assumed a loan to complete the acquisition of MVRS. As of June 30, 2012, the outstanding amount for the loan was approximately $1 million.

IV. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- **Section 15438.5(a) of the Act (Savings Pass Through):** SMRS properly completed and submitted the “Pass-Through Savings Certification”.

- **Section 15491.1 of the Act (Community Service Requirement):** SMRS properly completed and submitted this certification and indicated that SMRS does not have Medi-Cal contracts. However, SMRS provided a narrative explaining that Medi-Cal patients are accepted.

  While SMRS’ mental health services do not have a direct contract with Medi- Cal, SMRS does have contracts with Los Angeles and Orange Counties that allow for a Medi-Cal match. SMRS also has a Drug Medi-Cal contract with Los Angeles County, which acts as a pass-through.

- **Compliance with Seismic Regulations:** Seismic regulations do not apply to the refunding and refinancing portion of the bond issue, and none of the facilities to be renovated are acute care facilities.

- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** SMRS properly submitted CEQA documentation regarding the facilities to be renovated. SMRS previously submitted CEQA documentation in connection with the bonds being refunded.

- **Religious Affiliation Due Diligence:** SMRS properly completed and submitted relevant documentation regarding the religious due diligence requirement.

- **Legal Review:** SMRS properly completed and submitted relevant documentation for the Authority’s Legal Questionnaire.

- **Iran Contracting Act Certificate:** SMRS and the underwriter properly submitted the certificate to the Authority.

EXHIBIT 1

ACQUISITION PROJECT SITES

Project Site	**Project Address**
Rena B	4445 Burns Ave., Los Angeles, CA 90029
Royal Palms	360 S. Westlake Ave., Los Angeles, CA 90057

RENOVATION PROJECT SITES

Project Site	**Project Address**
Mariposa	453 S. Indiana St., Los Angeles, CA 90063
Omni Center	3430 Cogswell Rd., El Monte, CA 91732
River Community	23701 E. Fork Rd., Azusa, CA 91702
Sabina House	3543 Sabina St., Los Angeles, CA 90023
Touchstones	525 N. Parker St., Orange, CA 92868

EXHIBIT 2

FINANCING TEAM

Trustee:	U.S. Bank National Association
Trustee's Counsel:	Dorsey & Whitney LLP
Agent for Sale:	California State Treasurer
Issuer's Counsel:	Office of the Attorney General
Issuer's Financial Advisor:	Fieldman Rolapp & Associates
Issuer's Financial Analyst:	Macias Gini & O'Connell, LLP
Bond Counsel & Disclosure Counsel:	Quint & Thimmig, LLP
Borrower's Counsel:	Jennings, Strouss & Salmon, P.L.C.
Underwriter:	Wulff, Hansen & Co.
Auditor:	Dillon & Avedissian Accountancy Corp.
Rating Agency:	Standard & Poor's
Bond Insurers:	Federal Home Loan Bank Preferred Bank
Title Insurer:	Stewart Title of California, Inc.

EXHIBIT 3

UTILIZATION STATISTICS

Clients Served

Social Model Recovery Systems, Inc.
Fiscal Year Ended June 30,

Facility Name	Service	2011	2012	2013
Mariposa	Residential treatment	48	45	51
	Substance abuse, women & women w/ children			
Omni Center	Residential treatment	142	137	152
	Substance abuse, men			
River Community	Residential treatment	137	136	167
	Co-occurring disorders, men and women			
Sabina House	Sober living house	16	19	49
	Substance abuse, women & women w/ children			
Stepping Stones	Residential treatment	48	48	48
	Substance abuse, women & women w/ children			
Touchstones	Residential treatment	65	75	74
	Substance abuse, adolescent female and male			

EXHIBIT 4

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding as of June 30, 2013[a]	Estimated Amount Outstanding after Proposed Financing
- EXISTING LONG-TERM DEBT:			
Authority Debt:			
CHFFA 2001	$ 1,890,000	$ 1,245,000	$ -
CHFFA 2005	955,000	590,000	-
Other Debt:			
Note Payable		879,079	-
Note Payable		145,530	145,530
Note Payable		18,792	18,792
- PROPOSED NEW DEBT:			
CHFFA Series 2014			**5,000,000**
- TOTAL DEBT:		**$ 2,878,401**	**$ 5,164,322**

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

EXHIBIT 5

BACKGROUND, GOVERNANCE AND LICENSURE

Background

Incorporated in 1986, SMRS provides direct treatment services at eight locations in Los Angeles and Orange Counties. SMRS' services are directed at those whose lives have become unmanageable due to alcohol and other drug problems and/or whose mental health issues are interfering with leading productive lives. The emphasis of recovery at SMRS is based upon the relationship between the participant and his or her environment, including other participants and staff as a whole. It is the collective and integrated team of employees and participants more than one individual member which creates the ideal social model environment. In addition to direct service programs, SMRS operates a community-based alcohol and drug prevention program in the Central City East area (commonly known as Skid Row) in downtown Los Angeles. The mission of the program is to engage the most vulnerable populations of Central City East to challenge systemic conditions and social disparities that threaten a healthy environment.

Corporate Governance

SMRS' Board of Directors consists of between five and nine directors. SMRS is currently governed by seven members. Each director serves a four-year term that automatically renews for successive four-year terms until resignation, removal, or death. Directors are only compensated for reasonable expenses incurred in the performance of their regular duties. No more than 49% of the directors may be interested parties, which is defined as (1) any person currently being compensated for services rendered within the previous twelve months, whether as a full- or part-time officer or other employee, independent contractor, or otherwise, excluding any reasonable compensation paid to a director as a director; or (2) any brother, sister, ancestor, descendant, spouse, brother-in-law, sister-in-law, son-in-law, daughter-in-law, mother-in-law, or father-in-law of any such person.

Licensure and Memberships

Each of SMRS' facilities is licensed by the Department of Alcohol and Drug Programs with the exception of Touchstones, which is licensed through the Department of Social Services. All of SMRS' facilities, with the exception of Stepping Stones, are accredited through the Commission on Accreditation of Rehabilitation Facilities.

RESOLUTION NO. 395

**RESOLUTION OF THE
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
RELATING TO THE ISSUANCE OF REVENUE BONDS FOR
SOCIAL MODEL RECOVERY SYSTEMS, INC.**

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the "Act") to issue revenue bonds and loan the proceeds thereof to any participating health institution to finance the construction, expansion, remodeling, renovation, furnishing, equipping, and acquisition of health facilities (including by reimbursing expenditures made for such purposes), to refinance indebtedness of a participating health institution in connection therewith and to refund any outstanding bonds or any outstanding series or issue of bonds of the Authority;

WHEREAS, Social Model Recovery Systems, Inc., is a nonprofit, public benefit Corporation duly organized and existing under the laws of the State of California (the "Corporation") which owns and operates health care facilities in the State of California;

WHEREAS, the Corporation has previously merged with Mid Valley Recovery Services, Inc. and Stepping Stones Home, both previously non-profit public benefit corporations and owners and operators of residential treatment facilities;

WHEREAS, the Corporation desires to:

(a)(1) provide for the refunding of the portion of the Authority's outstanding Insured Health Facility Revenue Bonds (Prototypes/Social Model), 2001 Series A ("2001 A Bonds"), issued for the benefit of the Corporation, currently outstanding in the principal amount of $1,245,000, the proceeds of which were used to finance the acquisition and renovation of a leased facility, known as River Community, a 38-bed licensed residential treatment facility for adults with co-occurring mental health and chemical dependency disorders, located at 23701 East Fork Road in the Angeles National Forest, approximately 15 miles north of the City of Azusa, California,

(2) provide for the refunding of the portion of the Authority's outstanding Insured Refunding Revenue Bonds (Small Facilities Refinancing Program), 2005 Series A ("2005 A Bonds" and with the 2001 A Bonds, "Prior Bonds"), issued for the benefit of the Corporation, the proceeds of which were used to refund the portion of the Authority's Insured Health Facility Revenue Bonds (Small Facilities Pooled Loan Program), Series B (1994), issued for the benefit of the Corporation, currently outstanding in the principal amount of $590,000, the proceeds of which were used to finance and refinance the acquisition, construction, installation, and/or equipping of projects at the health care facilities, known as Touchstones, a 23-bed licensed residential treatment facility for adolescents with alcohol and other drug problems, located at 525 North Parker Street, Orange, California,

(3) provide for the prepayment of the California Statewide Communities Development Authority 501(c)(3) Land, Building and Equipment Program Note (Mid Valley Recovery Services, Inc. Project), Series 2004-1 (the "2004 Note"), issued for the benefit of Mid Valley Recovery Services, Inc., since assumed by the Corporation, currently outstanding in the principal amount of $815,000, the proceeds of which were used to finance the acquisition of three residential treatment facilities now operated by the Corporation, known as, Omni Center, located at 3430 Cogswell Road, El Monte, California, Mariposa, located at 453 South Indiana Street, Los Angeles, California, and Sabina House, located at 3543 Sabina Street, Los Angeles, California,

(4) provide for the prepayment of a taxable loan from a private party to Stepping Stones Home, since assumed by the Corporation (the "1999 Loan" and, with the refunding of the Prior Bonds and the prepayment of the 2004 Note, the "Prior Projects"), currently outstanding in the principal amount of $45,000, the proceeds of which were used to finance the acquisition of a residential treatment facility known as, Stepping Stones, located at 17727 East Cypress, Covina, California (collectively, the "Prior Projects"),

(b)(1) finance the acquisition of an 86 bed, two story treatment facility, known as Bimini Recovery House, located at 155 Bimini Place Los Angeles, California,

(2) finance the acquisition, construction and equipping of various improvements to the following residential treatment facilities: (i) River Community, 23701 East Fork Road in the Angeles National Forest, approximately 15 miles north of the City of Azusa, California, (ii) Touchstones, 525 North Parker Street, Orange, California, (iii) Omni Center, 3430 Cogswell Road, El Monte, California, (iv) Mariposa, 453 South Indiana Street, Los Angeles, California, (v) Sabina House, 3543 Sabina Street, Los Angeles, California, and (vi) Stepping Stones, 17727 East Cypress, Covina, California, (collectively, the "Existing Facility New Project"),

(3) finance the acquisition of a 135 bed, alcohol and drug treatment facility, known as Rena B, located 4445 Burns Avenue, Los Angeles, California, and

(4) finance the acquisition of a 100 bed, alcohol treatment facility, known as Royal Palms, located at 360 South Westlake Avenue, Los Angeles, California (collectively, the "New Projects" and, with the Prior Projects, the "Project");

WHEREAS, all facilities are or will be owned by the Corporation and used in connection with its substance abuse and mental illness treatment services;

WHEREAS, the Corporation has requested that the Authority issue one or more of its revenue bonds in an aggregate principal amount not to exceed $5,000,000, and make one or more loans of the proceeds thereof to the Corporation to (a) refund all or any portion of the outstanding Prior Bonds, (b) refinance indebtedness assumed by the Corporation in connection with the Prior Projects, (c) finance the New Project and (d) pay the costs of issuance with respect thereto, and the Authority has determined to issue its bonds for these purposes;

WHEREAS, the Bonds will be secured by an irrevocable direct pay letter of credit issued by Preferred Bank, pursuant to a reimbursement agreement, by and between the Bank and the Corporation, and will be further secured by a confirming letter of credit issued by the Federal Home Loan Bank of San Francisco; and

WHEREAS, to the extent required by subdivision (b) of Section 15455 of the Government Code, the Borrower has provided documentation to the Authority demonstrating, to the extent applicable, that the Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code or is not a "project" under such division; and

WHEREAS, final approval of the terms of the issuance and sale of such bonds is now sought;

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

Section 1. Pursuant to the Act, revenue bonds of the Authority designated as the "California Health Facilities Financing Authority Taxable Variable Rate Demand Revenue Bonds (Social Model Recovery Systems, Inc.), Series 2014," in a total aggregate principal amount not to exceed $5,000,000 (the "Bonds"), are authorized to be issued from time to time, in one or more series, with such other name or names of the Bonds or series thereof as designated in the indenture pursuant to which the Bonds will be issued. The proceeds of the Bonds shall be used for the purposes set forth in the fourth WHEREAS clause above.

Section 2. The Treasurer of the State of California (the "Treasurer") is hereby authorized to sell the Bonds in one or more series, on one or more sale dates at any time within six (6) months of the adoption of this Resolution, at public or negotiated sale, in such aggregate principal amount (not to exceed the principal amount set forth in Section 1) and in such series, at such prices (so long as the discount on the Bonds sold shall not exceed 6 percent of the par value thereof) and at such interest rate or rates and upon such other terms and conditions as the Treasurer, with the advice and consent of the Corporation, may determine. The Bonds shall, at issuance, be rated at investment grade by active nationally recognized rating agency. The Bonds or any series of them may, at the sole option of the borrower, be secured by a credit facility and other security arrangements and/or supported by one or more liquidity facilities.

Section 3. The following documents:

(a) an indenture relating to the Bonds (the "Indenture"), by and between the Authority and U.S. bank National Association as bond trustee (the "Trustee");

(b) a loan agreement (the "Loan Agreement"), by and between the Authority and the Corporation;

(c) a bond purchase agreement, including the appendices thereto (collectively, the "Bond Purchase Agreement"), by and among Wulff Hansen & Co. as underwriter (the "Underwriter"), the Treasurer and the Authority and approved by the Corporation, so long as the Underwriter's discount for purchase of the Bonds (exclusive of any original issue discount) does not exceed 1.75 percent of the principal amount of the Bonds; and

(f) a preliminary official statement relating to the Bonds (the "Preliminary Official Statement");

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein (including, without limitation, insertions, deletions or changes therein appropriate to reflect the form of credit or liquidity enhancement for any series of Bonds) as the officer(s) executing and/or delivering the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof in the case of the Indenture, the Loan Agreement and the Bond Purchase Agreement and by delivery thereof in the case of the Preliminary Official Statement. The Authority shall seek the advice of bond counsel and counsel to the Authority with respect to any such insertions, deletions or changes therein.

Section 4. The Authority hereby specifically finds and declares that the findings of the Authority set forth in the Loan Agreement are true and correct.

Section 5. The dated dates, maturity dates (not exceeding 40 years from the date of issue), interest rate or rates, interest payment dates, denominations, forms, registration privileges or requirements, place or places of payment, terms of tender or purchase, terms of redemption, provisions governing transfer and other terms of the Bonds, including provisions for a credit facility and/or a liquidity facility from time to time, shall be as provided in said Indenture as finally executed.

Section 6. The Underwriter is hereby authorized to distribute the Preliminary Official Statement to persons who may be interested in the purchase of the Bonds. The Underwriter is hereby directed to deliver the final official statement (the "Official Statement") to all actual purchasers of the Bonds.

Section 7. The Bonds, when executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee's Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to or upon direction of the Underwriter in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Said instructions shall provide for the delivery of the Bonds to or upon the direction of the Underwriter, as determined and confirmed by the Treasurer, upon payment of the purchase price thereof.

Section 8. Each officer of the Authority is hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things which they may deem necessary or advisable in order to consummate the issuance, sale, and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution and the Indenture, the Loan Agreement, the Bond Purchase Agreement and the Official Statement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation: (a) certifications, including, a tax certificate; and (b) any agreement or commitment letter with respect to the provisions of bond insurance, a letter of credit, a surety bond, a credit facility and/or a liquidity facility for the Bonds.

Section 9. The provisions of the Authority's Resolution No. 2013-02, as amended, apply to the documents and actions approved in this Resolution.

Section 10. The Authority hereby approves and ratifies each and every action taken by its officers, agents and employees prior to the date hereof in furtherance of the purposes of this Resolution.

Section 11. This Resolution shall take effect from and after the date of adoption.

Date of Adoption: ______________________________