

**CHFFA REVENUE BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

Applicant:	Beacon House Association of San Pedro (the "Corporation") 1003 South Beacon Street, San Pedro, CA 90733	Maximum Amount Requested:	\$1,550,000
		Date Requested:	April 28, 2011
		Requested Loan Term:	Up to 13 years
		Resolution Number:	362
Projects Sites:	See Exhibit 1 for listing		
Facility Types:	Residential Substance Abuse Treatment		
Prior Borrower:	No		
Background:	The Corporation has been providing residential alcohol and drug community recovery programs for men in the County of Los Angeles, California since 1973. The Corporation offers care mostly to the homeless and indigent who are also alcohol or drug dependent.		
Use of Proceeds:	Bond proceeds will be used to current refund a tax-exempt 1993 California Statewide Communities Development Authority (CSCDA) certificates of participation obligation previously used for real estate acquisition, renovation, improvements, equipping and refinancing. Due to lower interest rates, this refunding will result in an estimated \$171,600 in savings over the life of the bonds.		
Type of Issue:	Negotiated public offering with fixed rate bonds (Minimum \$5,000 denominations)		
Credit Enhancement:	Cal-Mortgage Insurance (Pending approval)		
Additional Security:	A fully funded debt service reserve fund		
Expected Credit Rating:	A- (S&P) based on Cal-Mortgage Insurance		
Underwriters:	Wulff, Hansen & Co.		
Bond Counsel:	Quint & Thimmig LLP		
Financing Team:	<i>Please see Exhibit 2 to identify possible conflicts of interest</i>		
Financial Overview:	The Corporation's income statement appears to show profitability over the review period. The Corporation's financial strength appears adequate with a proforma debt service coverage ratio of 1.93x.		
<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
Par amount of CHFFA bonds	\$ 1,550,000	Current refund CSCDA bonds	\$ 1,488,300
Prior Service Reserve Fund	165,500	Debt service reserve fund	156,500
Trustee held funds	55,000	Cal-Mortgage Bond insurance	58,600
Cal-Morgage insurance fund	10,000	Cost of issuance	57,700
		Underwriter's discount	19,400
Total Estimated Sources	\$ 1,780,500	Total Estimated Uses	\$ 1,780,500
Legal Review:	Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, Savings Pass Through, Seismic, and CEQA documentation. All documentation satisfies the Authority's requirements.		
Staff Recommendation:	Staff recommends the Authority approve Resolution Number 362 in an amount not to exceed \$1,550,000 (which Resolution is expressly conditioned on receipt of an investment grade rating by a nationally recognized rating agency and contingent upon approval of Cal-Mortgage insurance). Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, the Authority's financial advisor, concur with the Authority's staff recommendation.		

I. PURPOSE OF FINANCING:

Bond proceeds will be used to current refund¹ an existing CSCDA Certificate of Participation obligation. As a result of this financing (and expected lower interest rates), the Corporation will realize an estimated \$171,600 in savings over the life of the bonds.

<i>Current Refund CSCDA the Certificate of Participation, 1993.....</i>	\$1,488,300
The proceeds will be used to current refund a tax-exempt CSCDA certificates of participation obligation, bearing interest at 5.8%, which was used to acquire and renovate a two story facility located at 1012 South Palos Verdes Street, San Pedro California; to improve the facility located at 1003 South Beacon Street, San Pedro, California; to acquire buildings located at 101 and 103 West 11 th Street, San Pedro, California; to purchase equipment for multiple facilities; and to refinance six outstanding conventional loans that were used to purchase and renovate a number of facilities.	
<i>Debt Service Reserve Fund.....</i>	156,500
<i>Cal-Mortgage Bond Insurance.....</i>	58,600
<i>Cost of Issuance</i>	57,700
<i>Underwriter discount</i>	<u>19,400</u>
Total Uses of Funds.....	<u>\$1,780,500</u>

¹ Current refunding contemplates that the prior refunded bonds are redeemed within 90 days following the new bond issue. A borrower can current refund bonds more than once under federal tax law.

I. PROPOSED COVENANTS, SECURITY PROVISIONS AND DISCLOSURES:

Cal-Mortgage Insurance. The Authority's approval of the issuance of the Bonds will be subject to the requirement that the Bonds are insured by the Office of Statewide Health Planning and Development ("Cal-Mortgage"). As the insurer for the Bonds, Cal-Mortgage will take the responsibility for negotiating the covenants with the Borrowers that it decides are necessary for this transaction. These covenants will be incorporated into the Regulatory Agreement which the Authority will be a party to, however, Cal-Mortgage is granted the power to amend, modify or terminate the terms of the Regulatory Agreement (including the covenants) without the Authority's consent.

Because of the role of Cal-Mortgage as the insurer of the Bonds, the covenants described below (other than the unconditional promise to pay) may be subject to change and further negotiation after the Authority's Board takes action on the Resolution relating to the Bonds.

Unconditional Promise to Pay. The Borrower agrees to pay the Trustee all amounts required for principal, interest or reserve deposits and other payments and expenses designated in such Borrower's Loan Agreement. The primary source of payment for each Borrower's obligations under its Loan Agreement will be the monthly base rent payable by certain service providers for such Borrower's facilities as a portion of the total monthly rent payable by such service providers under long-term residency lease agreements with such Borrower.

Mortgage or Deed of Trust. The Borrower's obligations under its Loan Agreement will be secured by a Deed of Trust on its facilities that are being refinanced with the proceeds of the Bonds. The Authority should note that the lien of the Deed of Trust can be released with the consent of Cal-Mortgage but without the consent of the Authority.

Pledge of Gross Revenues. The Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.

Negative Pledge against Prior Liens. The Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.

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

Debt Service Reserve. The Bonds shall be secured by a Bond Reserve Fund that will be funded at the time of issuance of the Bonds in an amount equal to maximum annual debt service on the Bonds or such lesser amount as shall be required to comply with applicable federal tax rules. The Bond Reserve Fund is available to make principal and interest payments if any of the Borrowers fail to deposit timely loan payments.

Debt Service Coverage Requirement. The Loan Agreement and the Regulatory Agreement will contain a debt service coverage requirement based on not less than 1.25 times annual debt service for The Corporation. 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. The Borrower agrees not to incur additional Indebtedness unless authorized by such Borrower's Loan Agreement.

Disposition of Cash and Property Limitations. The Borrower agrees not to sell, lease or dispose of any property, plant or equipment or liquid assets unless authorized by such Borrower's Loan Agreement.

Comply with SEC Rule 15c2-12. The Borrower 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 borrower 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.

Cash Requirements. The Borrower promises to annually measure the balance of their cash and cash equivalent assets and maintain them at a 30 days cash on hand level.

Current Ratio Requirement. The Borrower promises to annually measure the current ratio and maintain such at 1.50x.

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

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II. FINANCIAL STATEMENTS AND ANALYSIS:

Beacon House Association of San Pedro, Inc.

Statement of Activities

(Unrestricted)

	For the Year Ended June 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Support and revenue:			
Program service revenue	\$ 577,357	\$ 740,730	\$ 631,016
Grants	348,957	214,220	23,790
Contributions	81,513	123,859	114,841
Special events revenue	62,801	82,398	85,883
Thrift shop revenue	28,416	20,290	-
Investment return	1,697	5,517	6,033
Unrealized loss on investment	-	-	(2,861)
Other income	54	23,210	2,958
Net assets released from restrictions	<u>217,567</u>	<u>26,810</u>	<u>435,829</u>
Total support and revenues	<u>1,318,362</u>	<u>1,237,034</u>	<u>1,297,489</u>
Expenses:			
Salaries	322,912	327,866	332,314
Rent	108,430	137,989	139,980
Employees benefits	88,157	67,775	72,071
Interest	80,383	106,375	98,725
Utilities	79,246	81,168	73,576
Food & beverage	74,912	63,027	68,086
Repairs & maintenance	63,585	49,767	52,697
Professional services	58,451	43,721	37,199
Insurance	48,744	66,345	60,965
Depreciation	44,722	44,722	44,722
Special events	28,616	39,243	39,829
Payroll taxes	24,896	24,673	24,331
Automobile	20,922	24,411	21,904
Supplies	17,192	28,305	19,028
Licenses & permits	15,690	3,847	10,925
Equipment rental	14,058	13,177	11,844
Telephone	13,998	15,348	12,857
Other	<u>44,514</u>	<u>74,866</u>	<u>113,196</u>
	<u>1,149,428</u>	<u>1,212,625</u>	<u>1,234,249</u>
Change in unrestricted net assets	168,934	24,409	63,240
Unrestricted net assets beginning of year	<u>904,296</u>	<u>879,887</u>	<u>816,647</u>
Unrestricted net assets end of year	<u>\$ 1,073,230</u>	<u>\$ 904,296</u>	<u>\$ 879,887</u>

Payor Source

Program Service	49%
Grants/Contracts	29%
Donations	14%
Special Events	5%
Thrift Shop	2%
Other	1%
Total	<u>100%</u>

Beacon House Association of San Pedro, Inc.
Financial Position

	As of June 30,		
	2010	2009	2008
Assets:			
Cash and cash equivalents	\$ 457,064	\$ 647,949	\$ 432,704
Prepaid expenses	20,537	20,621	14,948
Accounts receivable	102,574	79,803	45,055
Investments	15,330	15,666	-
Property and equipment, net	2,015,119	1,859,419	1,880,388
Deposits held in trust	70,895	69,896	58,442
Securities held in trust	228,223	202,672	228,982
Debt issuance costs, net	55,070	59,131	63,192
Total assets:	\$ 2,964,812	\$ 2,955,157	\$ 2,723,711
 Liabilities and net assets:			
Current liabilities			
Accounts payable and accrued expenses	\$ 118,224	\$ 68,159	\$ 138,122
Accrued bond interest payable	7,443	19,140	8,096
Funds held for others	69,985	69,896	-
Current portion of certificates of participation	60,000	65,000	70,000
Total current liabilities	255,652	222,195	216,218
Certificates of participation payable	1,480,000	1,545,000	1,605,000
Total liabilities	1,735,652	1,767,195	1,821,218
 Net assets:			
Unrestricted	1,073,230	904,296	879,887
Temporarily restricted	155,930	283,666	22,606
Total liabilities and net assets	\$ 2,964,812	\$ 2,955,157	\$ 2,723,711

Financial Ratios:

	Proforma (a)			
	FYE June, 2010			
Debt service coverage (x)	1.93	1.86	1.02	1.26
Debt/Unrestricted Net Assets (x)	1.44	1.43	1.78	1.86
Margin (%)	12.81	1.97	4.87	
Current Ratio (x)	2.33	3.44	2.28	

(a) Recalculates 2010 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

The Corporation's income statement appears to show profitability over the review period.

Particular Facts to Note:

- The Corporation's income statement exhibits healthy increases in unrestricted net assets from \$24,000 to \$168,000.
- During the review period, revenues appear to have increased by 1.61%, while expenses declined by 3.23%, seeming to indicate stable operations.
- During the review period, revenues from grants appear to have increased substantially during the review due to a grant from McMillen Foundation for building improvements related to one of the Corporation's facilities. In addition, a grant was received of \$140,000 from Los Angeles County for a new building that has yet to be constructed.
- According to management, the Corporation receives 43% of its revenue from governmental resources, such as Los Angeles County and Veterans Administration. The Corporation also receives substantial revenues through the direct pay from its residents, grants and donations. Medi-Cal and Medicare are not sources of the Corporation's revenues.
- To become less reliant on revenues from governmental agencies, the Corporation management indicates that it continues to seek other funding sources through private, corporate and public sources as well as private-pay clients. The Corporation has an active Fund Development Committee on its board that is continually working on improving their fundraising capabilities and development. Further, the Corporation is developing alternative sources of revenues, such as the Thrift Shop it owns and which is being considered for expansion. The Corporation is considering opening another thrift shop. Further, the Corporation is preparing for its strategic planning meeting to lay a course of action for the next three to five years; revenues will be a top consideration in the planning process.

Financial Discussion – Statement of Financial Position (Balance Sheet)

The Corporation's financial strength appears adequate with a proforma debt service coverage ratio of 1.93x.

- The Corporation's pro-forma debt-to-unrestricted net assets ratio is highly-leveraged at 1.44x, while its current ratio (measurement of liquidity), appears to be satisfactory at 2.33x. The existing debt service coverage ratio is 1.86x, and with this financing the pro-forma debt service coverage ratio will improve to 1.93x, which indicates that the Corporation should be able to repay the proposed CHFFA Bonds.

IV. DUE DILIGENCE:

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

- **Section 15438.5(a) of the Act (Savings Pass Through):** The Corporation properly completed and submitted the “Pass-Through Savings Certification,” in addition to a narrative explaining how it intends to pass through savings.
- **Section 15491.1 of the Act (Community Service Requirement):** The Corporation properly completed and submitted this certification and indicated that Medi-Cal and Medicare patients are accepted.
- **Compliance with Seismic Regulations:** The Corporation properly completed and submitted a description of its seismic requirements.
- **Compliance with Section 15455(b) of the Act (California Environmental Quality Act):** The Corporation properly submitted documentation to the Authority, where applicable, demonstrating that each proposed project has either complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is otherwise not a “project” under that division.
- **Religious Due Diligence.**
- **Legal Review.**

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EXHIBIT 1
PROJECT SITES

1012 South Palos Verdes Street, San Pedro, California

101 and 103 West 11th Street, San Pedro, California

1003 South Beacon Street, San Pedro, California

1126-132 West 10th Street, San Pedro, California

124 West 11th Street, San Pedro, California

EXHIBIT 2
FINANCING TEAM

Trustee and Escrow Agent: U.S. Bank National Association

Trustee's Counsel: Dorsey & Whitney LLP

Rating Agency: Standard & Poor's Rating Services

Issuer's Financial Advisor: Public Finance Management

Borrower's Counsel: Jennings, Strouss & Salmon, P.L.C.

Bond Counsel: Quint & Thimmig LLP

Underwriters: Wulff, Hansen & Co.

EXHIBIT 3

UTILIZATION STATISTICS

Clients Admitted
Fiscal Year Ended June 30

	2008	2009	2010
Totals	118	86	89

* As a residential facility, the Corporation measures utilizations of its residential programs by number of clients admitted to its residential program. The residential capacity of the corporation is currently at 109 beds.

EXHIBIT 4

OUTSTANDING DEBT

The Corporation's long-term debt consisted of \$1,540,000 remaining outstanding on the 1993 California Statewide Communities Development Authority (CSCDA) certificates of participations, which will be fully refunded with proceeds of the proposed bonds.

EXHIBIT 5

BACKGROUND, GOVERNANCE AND LICENSURE

Background

The Beacon House Association of San Pedro (the “Corporation”), has been providing residential alcohol and drug community recovery programs for men in the County of Los Angeles, California since 1973. The Corporation offers care mostly to the homeless and indigent who are also alcohol or drug dependent. Many of those served by the Corporation come by way of county alcohol facilities, veterans hospitals, detoxification centers and hospitals throughout the Los Angeles Harbor/South Bay area. Others are brought by Alcoholics Anonymous members or come directly from the streets.

The Corporation is a California nonprofit public benefit corporation, which has been determined to be an exempt, charitable organization under Section 501(c)(3) of the Internal Revenue Code. The Corporation is also exempt from State of California income tax.

Governance

The Corporation is governed by a Board of Directors (the “Board”), which consists of 11 voting members. The term of an elected director is for a period of one year. The Board has overall responsibility for the management and operation of all affairs relating to the Corporation. The Board has various standing committees, including Finance and Budget, Development and Fund Raising, Facilities and Board Development. The following table lists the members and officers of the Board as of January 31, 2011. There are currently no vacancies on the Board.

Licensure and Memberships

The Corporation is Licensed and Certified by the California Department of Alcohol and Drug Programs to provide residential treatment services for men 18 years and older. The Corporation presently has an agreement with the County of Los Angeles, Department of Public Health to provide services under the Residential Community Recovery Program sponsored by the State of California and the Federal government. The Corporation also has an agreement with the National Council of Alcohol and Drug Dependency of Long Beach to provide residential services for the drug court program and with the Veteran’s Administration Medical Center in Long Beach to provide continuing residential treatment for graduates of its medical substance abuse treatment program.