

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Interim Inc. (the “Interim”) 604 Pearl Street Monterey, CA 93940</p> <p>Facility Name: Manzanita House</p> <p>Project Site: 200 Casentini Street, Salinas, CA 93907 (Monterey County)</p> <p>Facility Type: Short-Term Crisis Facility and Social Rehabilitation Facility</p> <p>Eligibility: Governance Code Section 15432(d)</p> <p>Prior HELP II Borrower: Yes - Interim intends to pay off current balance of \$37,038 prior to closing.</p>	<p>Amount Requested: \$750,000</p> <p>Requested Loan Term: 7 year fixed</p> <p>Authority Meeting Date: October 27, 2011</p> <p>Resolution Number: HII-266</p>
--	---

Background: Established in 1975, Interim is nonprofit corporation that provides residential treatment, affordable supportive housing and social rehabilitation services for adults with psychiatric disabilities. Interim’s mission is to provide services and affordable housing supporting members of their community with mental illness and building productive and satisfying lives. In 2011, Interim served approximately 191 patients and had approximately 214 patient visits.

Uses of Loan Proceeds: Loan proceeds will be used to refinance two existing National Corporate Bank (NCB) loans used for (1) development and construction costs of Interim’s “Manzanita House,” and (2) bridge financing construction loans, which together have a combined balance of approximately \$822,000. Interim plans to use internal funds to pay-off the remaining balance for the two NCB loans and the remaining balance of the HELP II loan to enable Interim to borrow the maximum HELP II loan amount of \$750,000. This refinance will reduce Interim’s monthly loan payments from approximately \$11,728 to \$9,910, resulting in a monthly savings of approximately \$1,815 or \$152,462 over the life of the loan.

Financing Structure:

- 7-year fixed rate loan (84 equal monthly payments of approximately \$9,910)
- First (1st) lien position on the property located at 200 Casentini Street, Salinas, CA 93907.
- Pay-off of existing CHFFA HELP II loan prior to closing.
- Loan to value ratio not to exceed 95% (estimated combined loan to value ratio of 40.32%).
- Verification of the borrower funds to pay-off the remaining balance of the two NCB loans.
- Audited financial must be materially consistent with unaudited financial for June 30, 2011.
- Corporate gross revenue pledge.

Financial Overview: Interim’s income statement appears to exhibit positive operating results. The proforma debt service coverage ratio appears to be a solid 3.75x, indicating Interim should likely be able to repay the proposed HELP II loan.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II loan	\$ 750,000	Refinance NCB loan	\$ 822,000
Borrower funds	83,375	Financing costs	11,375
Total Estimated Sources	<u><u>\$ 833,375</u></u>	Total Estimated Uses	<u><u>\$ 833,375</u></u>

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

Parties of Interest: California Department of Housing & Community Development (CDHCD), California Health Facilities Financing Authority (CHFFA), City of Monterey, County of Monterey, City of Marina, National Corporate Bank (NCB) Development Corporation, Emergency Housing & Assistance Program (EHAP), and Permanent Housing for the Handicapped Homeless Program (PHHHP).

Staff Recommendation: Staff recommends approval of Resolution Number HII-266 for Interim Inc. in an amount not to exceed **\$750,000** for a term not to exceed **7 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: Interim seeks permanent refinancing for two existing NCB loans to lower its monthly payment by approximately \$1,815 per month. Currently, Interim has an existing loan with CHFFA with an estimated balance of \$37,038, which Interim intends to pay in full prior to closing. This refinancing will enable Interim to increase its cash flow and redirect the cost savings toward service improvement.

***Refinance Two NCB Development Corporation Loans* \$822,000**

The two outstanding NCB loans (\$822,000 principal balance) were obtained in January 2004 to refinance (1) Interim’s “Manzanita House” construction loan for a 7,425 square foot facility (15 beds, seven double occupancy bedrooms and two single occupancy bedrooms); and (2) two low income investment Fund Bridge Housing constructions loans previously issued for (a) the constructions of a 14-unit apartment complex (approximately 9,128 square feet) located at 345 Dela Vina, Monterey; and (b) the renovation and modeling of three properties (three unit single apartments, an eight unit single apartment, and six rooms) owned by Interim located at Pearl Street, Monterey. The two NCB loans have a monthly payment of approximately \$11,725 with a 6.75% interest rate.

The proposed HELP II loan will be secured by a first (1st) lien position on Interim’s 7,425 square foot property located at 200 Casentini Street, Salinas, CA 93907 which Interim’s management indicates has an estimated current market value of \$1.86 million, leading to a combined loan to value ratio of 40.32%. A full appraisal on this property will be required prior to closing.

***Financing Costs* 11,375**

Authority Fees	\$9,375
Title and Escrow	<u>2,000</u>

***Estimated Uses of Funds* \$ 833,375**

II. FINANCIAL STATEMENTS AND ANALYSIS

Interim, Inc. Income Statement of Operations

	As of June 30,		
	2011 Draft	2010 Audited	2009 Audited
Support and Revenue			
Grants:			
Monterey County Contract	\$ 6,320,281	\$ 6,456,191	\$ 6,386,160
Department of Rehabilitation	414,418	414,451	414,451
HUD	280,745	259,472	258,216
Contributions	257,119	237,424	221,334
Workforce education & training (WET) contract	99,341	98,724	99,341
American Recovery & Reinvestment Act (ARRA) Contract	80,013	45,576	-
City of Salinas Redevelopment Agency	31,300	35,000	35,000
City of Monterey	25,000	22,000	25,000
Management fees	431,618	368,361	337,556
Rents	393,458	423,146	430,216
Program income	237,148	269,434	248,195
Unrealized gain (loss) on investments	106,005	38,077	(114,706)
Developer fees ^(a)	-	285,000	-
Interest	45,000	39,232	79,474
Special Event	40,393	-	-
United Way	30,000	32,000	30,000
Other Revenue	4,640	(969)	2,157
Total support and revenue	<u>8,796,479</u>	<u>9,023,119</u>	<u>8,452,394</u>
Expenses:			
Program services			
Salaries and wages	4,824,787	4,911,370	4,780,849
Employee benefits	963,970	976,838	909,530
Depreciation	440,644	451,137	454,077
Payroll taxes	360,711	367,297	361,900
Professional services	276,421	140,259	184,223
Supplies and equipment	226,753	232,192	221,126
Rent	180,756	206,093	206,607
Utilities	171,502	178,873	170,151
Repairs and maintenance	170,957	145,525	160,919
Interest	142,227	162,409	168,057
Food	145,794	140,418	152,235
Insurance	111,131	124,343	115,340
Other Expenses	104,874	95,399	93,298
Telephone	98,885	132,211	133,105
Client services	97,474	119,109	101,022
Meeting and training	57,036	61,650	46,441
Printing and publications	37,462	44,871	43,354
Payroll processing fees	36,184	37,295	25,597
Travel and vehicle	19,699	49,187	48,890
Total Expenses	<u>8,467,267</u>	<u>8,576,476</u>	<u>8,376,721</u>
Excess (deficit) of support and revenue	329,212	446,643	75,673
Loss/ (gain) on acquisition	153,656	-	-
Contribution to affiliate	-	41,173	352,846
Change in net assets	<u>175,556</u>	<u>405,470</u>	<u>(277,173)</u>
Net assets, beginning of year	<u>10,397,991</u>	<u>10,126,853</u>	<u>10,404,026</u>
Net assets, Sunflower adjustment ^(b)	-	(134,332)	-
Net assets, end of year	<u>\$ 10,573,547</u>	<u>\$ 10,397,991</u>	<u>\$ 10,126,853</u>

^(a) Sunflower Housing, LLC, agreed to pay Interim \$285,000 in Developer fees for all expenses Interim incurred during the construction years for an 18 unit multi-family apartment complex for low-income rental for persons with chronic mental illness in Salinas, CA.

^(b) Interim developed multi-family apartment complex for rental to low-income persons with chronic mental illness. Sunflower Housing, LCC agreed to pay Interim for the Developer fees for all expenses incurred during the construction years. The transfer of approximately \$134,332 was recorded incorrectly in FY 2010.

Net Patient Services (FYI June 30, 2011)

<u>Pavors Source</u>	<u>Percent</u>
Grants	85.4
Management Fees	4.9
Rent	4.5
Program Income	2.7
Others	2.5
	<u>100</u>

(INTENTIONALLY LEFT BLANK)

Interim, Inc.
Balance Sheet

	As of June 30,		
	2011 Draft	2010 Audited	2009 Audited
Assets			
Current assets:			
Cash and cash equivalents	\$ 906,137	\$ 570,329	\$ 1,362,892
Investments	1,711,221	1,656,427	1,014,014
Grants receivable	1,274,707	1,043,853	1,223,084
Account receivable	192,903	355,674	246,499
Prepaid expenses	270,704	233,765	251,827
Deposits	10,619	8,219	8,219
Other	-	-	7,874
Total current assets	4,366,291	3,868,267	4,114,409
Noncurrent assets:			
Investments	1,913,637	2,493,015	1,636,938
Security deposits - held in trust	19,795	18,303	15,415
Assets held as required reserves	524,513	438,808	363,197
Investments in affiliate	-	6,227	6,227
Account receivable - related parties	-	187,002	293,798
Property and equipment, net	9,379,849	9,170,284	9,499,328
Total noncurrent assets	11,837,794	12,313,639	11,814,903
Total assets	\$ 16,204,085	\$ 16,181,906	\$ 15,929,312
Liabilities and net assets			
Current liabilities:			
Account payable	\$ 124,746	\$ 194,029	\$ 144,439
Accrued liabilities	806,610	978,448	932,029
Deferred revenue	215,352	215,352	255,049
Prepaid rent	5,005	5,304	-
Interest payable	20,990	14,956	6,496
Security deposits	19,795	18,303	15,415
Current portion of long-term debt	152,923	164,461	158,263
Total current liabilities	1,345,421	1,590,853	1,511,691
Noncurrent liabilities			
Interest Payable	476,370	366,827	300,442
Long-term debt ^{(a)(b)}	3,808,447	3,826,235	3,990,326
Total noncurrent liabilities	4,284,817	4,193,062	4,290,768
Total liabilities	\$ 5,630,238	\$ 5,783,915	\$ 5,802,459
Net assets:			
Unrestricted	\$10,079,178	\$9,880,398	\$9,537,966
Temporarily restricted	\$494,669	\$517,593	\$588,887
Total net assets	\$10,573,847	\$10,397,991	\$10,126,853
Total liabilities and net assets	\$ 16,204,085	\$ 16,181,906	\$ 15,929,312

Financial Ratios:

Proforma ^(c)
FYE June 30, 2011

Debt Service Coverage Operating (x)	3.75	2.97	3.31	2.17
Debt Service Coverage Net Assets (x)	3.12	2.47	3.18	1.08
Debt to Unrestricted Net Assets (x)	0.36	0.38	0.39	0.42
Margin (%)		2.00	4.49	(3.28)
Current Ratio (x)		3.25	2.43	2.72

^(a) EHAP's \$1.0 million note will be forgiven in October 2012 if Interim's facilities are maintained for low income housing for the entire loan term.

^(b) City of Marina's \$265,000 note will be forgiven in December 2012 if Interim's facilities are maintained for use as an emergency shelter, transitional housing, or a safe haven for the entire loan term.

^(c) Recalculates FYE June 2011 audited results to include the impact of this proposed financing.

Financial Discussion – Statement of Activities (Income Statement)

Interim's income statement appears to exhibit improved operating results during the review period.

During the review period, Interim experienced improving operating margins of (3.28%) in FY 2009, 5.24% in FY 2010, and 2.00% in FY 2011. Interim's management attributes the improved margins to the increase of patients served by approximately 15.76% and increase of patient visits of approximately 22.29% due to (1) improving efficiency on referral/ intake process; and (2) allowed patients from the Natividad Medical-Crisis Team to be referred to Manzanita House to avoid hospitalization and lower overall costs. The operating expenses have remained steady from year to year with a slight increase of 1.08% from FY 2009 to FY 2011 compared to 4.07% increase in operating revenue for the review period. According to the Interim's management, the borrower is continuing to monitor expenses to contain costs given the current economic climate.

Particular Facts to Note:

- During FY 2011, Interim has experienced approximately \$153,656 loss associated to the acquisition of its limited partnership property located at 504 West Franklin Street, Monterey, CA.
- During FY 2009, Interim experienced an unrealized loss of approximately \$114,706 due to financial market fluctuations. According to Interim's management, its finance committee meets bi-weekly to monitor its investments and once per year with a stockbroker to discuss changes in its investment strategy. As a result, Interim has a gain in unrealized investments of approximately \$106,005 for FY 2011.
- Interim's management indicated that the organization has contracted with the County of Monterey since 1976. The contract is renewable every three years. Currently, Interim has a contract with the County of Monterey until June 30, 2013 and anticipates that contract being continued into the future.
- According to Interim's management, it has a contract with the County of Monterey Behavior Health Department. Currently, the homeless population in the County of Monterey is growing and Interim does not foresee any budget cuts in the near future. If there were to be budget cuts, Interim's management would consider using operating reserves, charging fees for services, and renting out vacant beds to other not-for-profit agencies.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Interim's balance sheet appears to be solid with a proforma debt service coverage ratio of 3.75x.

Interim appears to have a solid balance sheet with a total change of net assets that grew approximately 4.41% from \$10.1 million in FY 2009 to \$10.5 million in FY 2011. The increase in net assets is attributed to the overall growth in (1) revenue and investments; and (2) decrease in overall liabilities of approximately 2.97% during the review period.

Interim appears to be highly liquid (averaging 191 days cash on hand) with a minimal debt to unrestricted assets of 0.36x, nicely below the Authority's target ratio of less than 1.0x. In addition, at the end of 2012, Interim anticipates forgiveness of two outstanding notes payable (totaling approximately \$1.26 million) which should significantly strengthen Interim's balance sheet position.

Particular Facts to Note:

- In FY 2010, Interim reports the decrease in cash and cash equivalents to approximately \$570,329 in FY 2010 from \$1.36 million in FY 2009, is the result of excess operating cash being invested in market securities.
- During the review period, the total unrestricted net assets grew approximately 5.67% from \$9.5 million to \$10.1 million which Interim attributes to unrealized gains in investments, interest income, developer fees and maintaining costs from year to year.

EXHIBIT 1

UTILIZATION STATISTICS

CLIENTS SERVED / (PATIENT VISITS) FOR FISCAL YEAR ENDED JUNE 30,

	2011	2010	2009
Total	191 / (214)	175 / (191)	165 / (175)

EXHIBIT 2

OUTSTANDING DEBT

Date Issued	Original Amount	Amount Outstanding As of June 30, 2011 ^(a)	Estimated Amount Outstanding after Proposed Financing
-EXISTING LONG-TERM DEBT:			
California Department of Housing & Community Development Multifamily Housing Program (MHP) - Note Payable, 2004	\$ 708,792	\$ 708,792	\$ 708,792
City of Monterey - Note Payable, 1989	150,000	150,000	150,000
California Department of Housing & Community Development Special User Housing Rehabilitation (SUHRP) - Note Payable 1989	140,000	140,000	140,000
California Department of Housing & Community Development Special User Housing Rehabilitation (SUHRP) - Note Payable 1990	67,520	67,520	67,520
California Department of Housing & Community Development Special User Housing Rehabilitation (SUHRP) - Note Payable 1991	109,980	109,980	109,980
California Health Facilities Financing Authority (CHFFA) HELP II - Note Payable 1997	500,000	37,038	-
California Department of Housing & Community Development Multifamily Housing Program (MHP) - Note Payable, 2004	150,938	150,938	150,938
County of Monterey - Note Payable 2002	100,000	100,000	100,000
City of Marina - Note Payable 2002 ^(b)	265,000	265,000	265,000
County of Monterey - Note Payable 2005	100,000	92,105	92,105
NCB Development Corporation - Note Payable	1,000,000	627,015	-
NCB Development Corporation - Note Payable	500,000	225,792	-
Emergency Housing and Assistance Program (EHAP) - Note Payable 2004 ^(c)	1,000,000	1,000,000	1,000,000
County of Monterey, Development & Housing Office - Note Payable 2007	150,000	135,600	135,600
Permanent Housing for the Handicapped Homeless Program - Note Payable 2002	175,130	17,327	17,327
City of Monterey - Note Payable, 1994	104,550	104,550	104,550
County of Monterey - Note Payable, 1993	50,000	29,713	29,713
- PROPOSED NEW DEBT:			
CHFFA HELP II, 2011			750,000
- TOTAL DEBT		\$ 3,961,370	\$ 3,821,525

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

(b) Note will be forgivable in October 2012 if Interim's facilities are maintained for low income housing for the entire loan term.

(c) Note will be forgivable in December 2012 if Interim's facilities are maintained for use as an emergency shelter, transitional housing or a safe haven for the entire loan term.

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

Established in 1975, Interim is a nonprofit benefit corporation that continues to provide residential treatment, affordable supportive housing, and social rehabilitation services for adults with psychiatric disabilities residing in Monterey County. Interim's mission is to provide services and affordable housing supporting members to the community with mental illness in building productive and satisfying lives. Currently, Interim owns five entities; Mariposa Housing; Dela Vina Housing; Catalyst Housing; Sunflower Housing LLC; and Lupine Gardens Housing. In FY 2011, Interim served approximately 191 patients and had approximately 214 patient visits.

Manzanita House is a Short-Term Crisis Program providing a residential treatment program that provides emergency shelter for homeless clients with a mental illness and offering a community-based alternative to in-patient psychiatric care for people in psychological distress or crisis in a non-institutional home environment. This program serves approximately 175 individuals per year.

Licensure, Certification and Accreditation

Interim's Manzanita House is a Short-Term Crisis Facility certified by the California Department of Mental Health and Social Rehabilitation Facility licensed by California Department of Social Services.