

**UMB SEISMIC SAFETY LOAN PROGRAM
LOAN APPLICATION PRESENTATION AND ANALYSIS**

Walden House Adult Residential Facility

815 Buena Vista West

CONSTRUCTION LOAN

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Loan Committee Date: May 8, 2007

Applicant/Sponsor Name:	Walden House, Inc.
Project Name:	Adult Residential Substance Abuse Treatment Center
Project Address (w. cross street):	815 Buena Vista Street
Number of Units/Beds (specify):	59 resident rooms; 108-bed capacity
Amount of Funds Requested:	\$3,802,000
Staff Recommendation:	\$3,802,000

Loan Request Summary

Walden House is seeking a \$3,802,000 SSLP loan in order to complete direct structural building modifications required by the City's UMB Ordinance and to remove and replace existing finishes as necessary to carry out the structural work. The only ADA/handicap related modifications for the project are sidewalk cutouts that are being required by the Department of Public Works Bureau of Street Mapping. Accessibility modifications are not a requirement for work being done for compliance with the UMB Ordinance. There are also no plans for upgrades to the building services or alarm systems.

The property is located on a triangular site between Waller Street and Buena Vista Avenue West along the western border of Buena Vista Park. The site is approximately one and a half blocks south of Haight Street and approximately one block east of Masonic Avenue. The property is improved with a partial four-story and one-story group housing facility. The site slopes from back to front so that the back portion of the first floor is below grade level. The building is a concrete masonry structure constructed in 1916. The gross building area is approximately 30,036 square feet, and the land area is approximately 9,753 square feet.

The 1st floor layout of the subject building incorporates the main entry lobby, offices, a dining room and kitchen, mechanical and electrical rooms, storage rooms and a restroom. The 2nd floor is mainly office space with men and women restrooms. There is also a connection door to a 2-story assembly hall at the end of the building, which is attached, but not included in the project.

The 3rd and 4th floors are assisted-care residential units. There are a total of 59 units with 108 beds. The building is equipped with an elevator.

The residents of 815 Buena Vista Street are clients of Walden House substance abuse treatment programs. Their average stay at the facility is approximately six months. The residents do not pay rent. Only a couple of the residents have any type of employment. Moreover, Walden House reports that examinations of client assets during client intake provide no evidence that residents hold assets that would categorize them as above low-income. Walden House will need to provide formal income certifications prior to the dispersal of any loan funds. From the data that has been submitted thus far, however, it appears that Walden House will have little difficulty in meeting the criteria for an SSLP Deferred Extended Loan. The interest rate for this loan would be 1.86%. The repayment term for the loan would be 55 years. All repayments loan principal and interest will be deferred until the loan maturity date. Walden House will be required to execute a Regulatory Agreement that will be recorded and will assure that the building meets SSLP affordability guidelines for the entire loan period.

On June 30, 2005, the UMB Seismic Safety Loan Committee approved a \$285,000 UMB loan to finance pre-development soft costs in advance of a planned seismic retrofit of the subject property. Borrower has now submitted plans for construction activity during the project renovation and has provided a maximum cost line item bid by the selected general contractor. MOH's Construction Manager has examined proposed project drawings and costs. Modifications to the project budget were made as a result of this examination

The subject UMB loan will be secured by a blanket third deed of trust on the subject property and second and third deeds of trust on two other properties owned by the Borrower.

Applicant

Walden House, Inc., is a California non-profit corporation. Walden House is a well-known provider of psychological and social services to the general public, primarily related to drug and substance abuse rehabilitation and HIV prevention. Walden House operates a network of treatment facilities, halfway houses at a variety of locations, primarily in the San Francisco Bay Area.

In the 35 years since it first opened its doors as a local drug and alcohol treatment center, Walden House has evolved into a national leader in developing strategies to help addicts recover and maintain their lives. Walden House treats more than 3,400 men, women and children daily. Walden House provides a full-continuum health care system specializing in all aspects of addiction services including detoxification, comprehensive medical care and mental health services. Clients receive legal, educational and vocational services as fundamental parts of their treatment. Walden House endeavors to promote a "culturally sensitive treatment environment that is designed to foster the open communication, self-help and empowerment of each person within the context of the greater community." Walden House has over 400 employees in over 150 job titles.

Walden House's President/CEO is now Rob Libbey, appointed in January 2006. Mr. Libbey was hired as Director of Human Resources in 2004. Mr. Libby retired from Bank of America after a 17-year career in human resources.

Walden House receives almost all of its income from governmental grants, contracts and charitable donations. An independent audit report on Walden House prepared by TCA Partners CPA's (Exhibit B) shows, that for the last full fiscal year ended 6/30/06, total revenues were \$41.458 million. Approximately 92% of Walden House's income was derived from governmental grants and contracts, including 6.5% from AFDC-Foster Care payments and 1.5% from welfare departments. Approximately 8% of Walden House income is from in-kind and cash donations.

Expenditures on program services for the most recent fiscal year totaled \$36.876 million and management and general expenses totaled \$4.359 million for a total of \$42.195 million. Thus the organization showed a \$263,000 operating surplus.

While contract revenues decreased by about \$3.5 million during FYE 6/30/06, this was offset by a corresponding decrease in contracting expenses. For the next fiscal year, Walden House has budgeted for a \$500,000 increase in contract revenues (and expenses).

In December 2004, Walden House closed on \$7,475,000 in bond refinancing issued by The California State-wide Community Development Authority. The bonds bear interest at 2% increasing to 4.5%, and maturing in 2022. The Borrower estimates annual interest savings of \$175,000 as a result of the bond refinance, and the financial statements appear to support this.

As noted in the June, 2005 presentation o the Loan Committee, in 2004 the Charitable Assets Division of the State Attorney General's Office found that expenditures of approximately \$470,000 in 1994 and between 1998 and 2003 by former Walden House Management were either not appropriately approved by the Corporation's Board or insufficiently documented. The investigation prompted the resignation and/or termination of "certain personnel" cited by the State, and implementation of a State-approved "corrective action plan." According to Vida Jalali, then Walden House CFO, the financial impact of these problems is virtually all behind the organization, expect for about \$50,000 in remaining write-offs. In addition, the financial performance of the last few years shows a continuing ability by the organization to break-even in its operations.

Development Team

Arturo Carrillo, Vice President and Director of Operations has assumed general oversight of development and construction on behalf of Walden House. Swinerton Management and Consulting has represented the Walden House in pre-construction planning, including working

with the architect and engineering, developing a package for bidding contractors, and reviewing the bids. Swinerton will also serve as Construction Manager, overseeing construction on behalf of the Borrower. Walden House has selected Cee Architects to perform architectural services and Structural Design Engineers for project engineering.

West Coast Premier Construction, Inc. was selected as the project prime contractor. During October 2006, Swinerton sent out requests for contractor bids on behalf of Walden House. Inquiries were received from six contractors, and two contractors submitted bid proposals. Walden House choose to concentrate on developing an agreement with West Coast, who submitted a bid that was approximately \$800,000 lower than its competitor. Another factor in the selection of West Coast was that it was a smaller firm, which would have the effect of reducing delays caused by dealing with the bureaucracy involved in larger firms. Extensive negotiations took place with West Coast Premier concerning project scope and cost inclusions. The result of these negotiations was a revised bid that was submitted by West Coast for a total of \$ 2,570,295 (see Exhibit C). During discussions between MOH and Walden House, it was agreed that the inspection fee (\$42,000) and the contingency cost (\$100,000) were inappropriately included in the contractor's budget. Agreement was reached to delete these items and reduce the West Coast budget to \$2,428,295. A review of West Coast's relevant company experience indicates that they have sufficient seismic rehabilitation experience in order to carry out the subject project effectively.

Proposed Renovations

The scope of work is summarized as follows:

- At 1st floor, a structural steel moment frame will be constructed towards the end of the building, supported by a new reinforced concrete grade beam foundation that will be built below the 1st floor slab. The new steel moment frame will be welded to an existing steel main support beam along the line of the new moment frame. A new wood-framed shear wall will also be constructed across approximately one half of the width of the building towards the center, at the first floor level.
- Structural tie collectors will be installed to the floor diaphragms at the 2nd, 3rd and 4th floor and roof levels comprised of 11 inch-deep beams at the floors and 5.5 inch-deep beams at the roof that will be connected to the floor diaphragms and bolted into the exterior masonry walls. There will be 4 collectors per floor. At each floor level, new connections will also be installed between the existing floor joists and the exterior masonry walls. This will be accomplished by blocking between every joist, which will be bolted into the wall with ¾ inch bolts set in the masonry with epoxy. At the third floor level, and 8 inch-thick reinforced masonry shear wall will be constructed between the existing steel columns at the west end of the building.
- At the roof level, the existing waterproofing will be entirely removed, and a new layer of 5/8 inch-thick structural ply will be attached to the roof structure over the existing layer

of ply. The new roof waterproofing will then be installed, including sheetmetal flashing. The glazing to the two existing skylights will be removed and replaced, as well as the metallic roof to the cupola.

- In order to complete the renovations, the undersides of the existing ceilings at levels 2, 3, 4 and the roof will need to be removed. It will also be necessary to relocate, or remove and replace existing services at numerous locations on each floor where these are in conflict with the new seismic retrofit work. Upon completion of the structural work, the removed ceiling areas will be replaced with finishes to match the existing finishes.

Project Budget

Walden House estimates that total project costs for the subject project will be \$3,802,000 (Exhibit A). The cost figure is inclusive of the proposed maximum price bid of \$2,428,295 for seismic renovations submitted by West Coast Premier, Inc. Both Swinerton and Walden House staff met several times with MOH staff during activities aimed at development of an acceptable total project cost proposal. One of the more important topics during meeting discussions was attempting to make project soft costs comply with SSLP and MOH guidelines.

Project Economics

Walden House has been awarded a \$397,000 grant (for hard costs disbursed based on percentage of completion) from the federal Health Resources and Services Administration (HRSA) program. The subject \$3,802,000 SSLP loan would finance the balance of the project. From the total of \$4,087,000 that would be the amount for SSLP financing if the subject loan is approved, \$285,000 has been previously dispersed for predevelopment costs.

The proposed UMB construction loan would be secured by a blanket deed of trust on three Walden House-owned properties that are already collectively encumbered by existing financing:

1. 815 Buena Vista Avenue (subject property to be renovated): \$8,000,000 appraised value as of 4/1/06 (subject to completion of the seismic renovations);
2. 890 Hayes Street (four-story, 32,248 square foot, 100-bed residential group home facility): \$7,000,000 as of 1/12/05 with 100 beds; and
3. 214 Haight Street (three-story, 23,920 square foot group housing and counselling facility): \$6,100,000 appraised value as of 10/10/05.

Although valued at various times, the combined values for these three properties based on the most recent appraisals was \$21,100,000.

At closing, the above properties will be encumbered by the following loans:

1. \$7,150,000 in fully amortizing bond financing from the California State Community Development Authority. This is secured by a blanket first deed of trust on the three

properties, issued at an original balance of \$7,475,000 in December 2004. This loan carries \$620,000 in annual debt service, interest at 2% increasing to 4.5%, and maturing in 2022.

2. \$3,000,000 blanket second deed of trust securing a line of credit from the California Statewide Office of Health Planning and Development. According to the Borrower, the line of credit funds receivables and has a maximum limit of \$4,900,000, with a 30-day annual "clean-up" period during which no funds may be outstanding. The current loan balance is approximately \$1,000,000, and the last clean-up period was from 9/28/06 to 11/22/06.
3. The \$3,802,000 Seismic Safety loan secured by a blanket 3rd deed of trust.

The combined deeds of trust securing the above loans total \$13,220,000, and the combined loan to value ratio would be approximately 63%. This ratio is within SSLP guidelines.

There is an assortment of deeds of trust on the above properties totalling approximately \$1.1 million securing previous findings from the Mayor's Office of Community Development (MOCD). The loans in question are essentially grants that funded ADA and life safety projects on the properties. MOCD has agreed to subordinate their loans to the subject SSLP loan.

Based on the preliminary budget, economic analysis and other information provided by the Applicant, the requested loan appears to conform with the loan to value criteria of the SSLP loan program. The loan adequately meets the program's LTV requirements. It should be noted, however, that the Borrower is heavily reliant on governmental funding sources to meet its operating obligations. Walden House, though, is an established leader in its field and its track record demonstrates a history of competing well for such funding.

Conditions Precedent to Loan Closing

The loan shall be for a term of 55 years, and the interest rate shall be fixed at 1.86% for the term of the loan. All repayments of loan principal and interest will be deferred until the loan maturity date. The loan closing is subject to Borrower's compliance with all Seismic Safety Loan Program requirements, and the timely submission of pre-closing items, including, but not limited to:

1. Borrower to covenant that UMB loan program guidelines will be followed for obtaining contractor bids.
2. Receipt of certificate of property, course of construction, and liability insurance per the UMB Loan Program Insurance Requirements.
3. Copy of a building permit by the City's Department of Building Inspection.
4. All disbursements during the term of the loan shall be subject to: (1) Borrower's submission of a fully completed Loan Disbursement Request Form signed by Borrower and Borrower's

engineer/architect; (2) Borrower's submission of supporting contractor's progress payment billing and Borrower's invoices for soft costs; (3) inspection of the completed improvements by SSLP staff as to percentage of completion only; (4) adequate remaining loan funds; (5) receipt of lien releases and title insurance endorsements as required under the Construction Loan Agreement; and (6) compliance with contractor requirements pursuant to Administrative Code Chapter 66A and other applicable laws.

5. Execution by Borrower of all UMB Loan Documents, including, but not limited to: Construction Loan Agreement, Promissory Note, Deed of Trust, Assignment of Plans, Environmental Indemnity, Regulatory Agreement, UMB Loan Program Contractor Requirements Acknowledgment Form and Escrow Instructions. The subject UMB loan shall be secured by a blanket Deed of Trust on the following three properties: 815 Buena Vista Avenue; 890 Hayes Street; 890 Hayes Street; and 214 Haight Street. UMB loan shall be subordinate to the aforementioned bond financing.

6. Review of current preliminary title reports on the above three properties by Office of the City Attorney, with recommendations as to acceptable exceptions to ALTA title insurance policy. All applicable borrowing entity formation documents shall be subject to review by the Office of the City Attorney.

7. The holder of the first deed of trust shall provide written consent to allowing the proposed loan and the prospective UMB construction loan to secure by a subordinate deed of trust.

8. Borrower's payment of all loan fees, title insurance, escrow and other closing costs. Loan modifications, assumptions, subordination reviews and reconveyance fees during term of loan subject to UMB loan program Schedule of Fees. UMB loan program fees do not include any other inspection fees, permits and other fees costs that may be charged to Applicant by other City departments or agencies.

9. The loan commitment shall be valid for a period of 120 days from the date of the UMB Loan Committee's initial approval, and it is the Borrower's responsibility to satisfactorily meet all closing conditions within this period. Any extensions to the loan closing commitment shall be subject to a re-application to the UMB Loan Committee, and approval by the UMB Loan Committee.

	For the Year Ended June 30	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 262,715	\$ (438,457)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	617,968	588,974
Changes in operating assets and liabilities:		
Accounts receivable	1,867,098	(1,472,966)
Inventory	(14,341)	29,805
Prepaid expenses, deposits and other	(49,182)	153,629
Accounts payable and accrued expenses	<u>(2,131,697)</u>	<u>469,686</u>
Net cash provided by (used in) operating activities	552,561	(669,329)
Cash flows from investing activities:		
Purchases of property and equipment	<u>(570,802)</u>	<u>(286,556)</u>
Net cash used in investing activities	(570,802)	(286,556)
Cash flows from financing activities:		
Proceeds from debt borrowings	452,519	8,732,137
Principal payments on debt borrowings	(653,187)	(7,318,314)
Net increase in other assets	<u>-0-</u>	<u>(379,523)</u>
Net cash provided by (used in) financing activities	<u>(200,668)</u>	<u>1,034,300</u>
Increase (decrease) in cash and cash equivalents	(218,908)	78,415
Cash and cash equivalents at the beginning of the year	<u>566,458</u>	<u>488,043</u>
Cash and cash equivalents at the end of the year	<u>\$ 347,550</u>	<u>\$ 566,458</u>
Supplemental Cash Flow Information:		
Interest paid	<u>\$ 504,223</u>	<u>\$ 660,095</u>
Non-cash investing activities – capital leases acquired	<u>\$ 167,519</u>	<u>\$ 108,717</u>