



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Health System



Date: April 18, 2016
Board Meeting Date: May 10, 2016
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: Ken Cole, Director, Department of Housing
Louise Rogers, Chief, Health System
Stephen Kaplan, Director, Behavioral Health and Recovery Services

Subject: Measure A: Stabilizing Residential Substance Use Providers in San Mateo County

RECOMMENDATION:

Adopt a resolution authorizing:

- A) The County to provide loans totaling up to \$5 million in Measure A funds to five nonprofit organizations which own, lease and operate residential substance use treatment centers, in order to reduce mortgage and lease payments and address immediate capital needs, including allocating a portion for administrative costs; and
- B) The County to restructure existing County loans made to the organizations; and
- C) The Director of the Department of Housing, or the Director's designee, to execute contracts with each of the five nonprofit organizations to provide new loans and forgive or restructure existing County loans as necessary.

BACKGROUND:

Substance use treatment providers in San Mateo County are under increasing financial stress due to decreasing revenues and increasing operating costs. Some providers that own properties are struggling to make mortgage payments and contemplating selling property in order to relieve financial pressures at a time when soaring real estate values accelerate this pressure. However, prospects are good for increased operating funding for residential treatment under the Medi-Cal program that received Federal approval in August 2015. Unfortunately, timing of this relief is unclear and may be too late for those in the most severe financial condition.

In August 2015, the Board of Supervisors approved the creation of a \$1 million Measure A emergency fund and authorized an additional \$4 million of Measure A in September 2015 to stabilize providers over the long term. The Division of Behavioral Health and Recovery Services (BHRS) of the Health System and the Department of Housing (DOH) solicited interest from providers and received five responses. To help evaluate the responses, DOH contracted with a consultant experienced in nonprofit finance, supportive services, property management and related funding mechanisms. DOH also hired a vendor to conduct physical needs assessments for the 21 properties owned and/or operated by the five applicants.

DISCUSSION:

Following review of the applications and discussions with the five organizations and consultants, DOH and BHRS considered a variety of strategies for short-term and long-term support of the providers. Staff recommendations follow. Note that the organizations are currently making monthly interest and principal payments, so the value of their outstanding loans will decrease between the time they were reported (during the early 2016 analysis period) and the time the County provides take-out loans. Accordingly, the plan below reflects maximum allocations which sum to slightly more than \$5 million. Final amounts for the new County loans will be adjusted accordingly when the loans are made. If the time-based reductions do not reduce the total allocation to \$5 million, the County will remove from the take-out schedule the smallest outstanding loan necessary to balance the \$5 million plan.

Terms of the new County loans will be 0% interest for 30 years, forgiven in five equal 20% shares over the final five years of the loan, with no debt service requirements, nor payments from residual receipts. However, in the event a property is sold or a provider fails to operate a property for its intended purpose, a loan can be accelerated at the County's discretion, becoming immediately due and payable.

Organization	Immediate Capital Needs	Estimated Take-Out Loans	Lease Payments	Total
Service League	\$22,425	\$968,926	\$0	\$991,351
Our Common Ground	\$37,525	\$1,010,000	\$0	\$1,047,525
Project Ninety	\$131,342	\$2,108,726	\$0	\$2,240,068
Free At Last	\$8,275	\$0	\$0	\$8,275
The Latino Commission	\$6,625	\$0	\$735,000	\$741,625
Total	\$206,192	\$4,087,652	\$735,000	\$5,028,844
Administrative Costs (County, consultants, title)				\$108,447

Service League: Fund immediate capital needs and take out private loans on five properties.

Our Common Ground: Pay for immediate capital needs and take out the private loan on its 38-bed recovery program facility.

Project Ninety: Fund immediate capital needs and take out private loans on six properties.

Free at Last: Cover immediate capital needs and restructure five County loans on three properties to reduce interest to 0% and defer all payments.

The Latino Commission: Fund immediate capital needs and a 10-year lease for the organization's Rolling Hills property. In connection, the County will require that the organization fulfills one of two requirements: 1) Negotiate a lease-to-own structure (preferred), or 2) make annual contributions in an amount to be determined to an outside reserve, for the 10-year term of the lease. This reserve will be held for use at expiration of the 10-year lease to assist the organization in finding a new property if the current owner is unwilling to renew at an appropriate rate affordable to the Latino Commission.

The resolution has been reviewed and approved as to form by County Counsel. Approval of this action contributes to the Shared Vision 2025 outcome of a Healthy Community by securing residential treatment for adults with substance use disorders.

PERFORMANCE MEASURE(S):

Measure	FY 2015-16 Actual	FY 2016-17 Projected
Residential Substance Use Capacity	129-bed capacity retained	129-bed capacity retained

FISCAL IMPACT:

The net county cost is up to \$5 million in **Measure A** funding previously allocated by the Board of Supervisors in August and September of 2015.