

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Program  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Tikvah-Etta and Lazear Israel Center for the Developmentally Disabled dba Etta Israel Center (“EIC”) 12722 Riverside Drive, Suite 105 North Hollywood, CA 91607 Los Angeles County</p> <p><b>Project Site:</b> 12655 Emelita Street, Valley Village, California 91607, Los Angeles County</p> <p><b>Facility Type:</b> Group Home</p>	<p><b>Amount Requested:</b> \$481,000</p> <p><b>Requested Loan Term:</b> 15 years</p> <p><b>Date Requested:</b> March 29, 2007</p> <p><b>Resolution Number:</b> HII-192</p>
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**Use of Loan Proceeds:** Loan proceeds will be used to refinance a bank loan from Beach Business Bank. The loan will be secured by the newly renovated Valley Village property. EIC will save approximately \$180,000 in interest payments over the life of the loan.

<p><b>Type of Issue:</b></p> <p><b>Prior HELP II Borrower:</b></p> <p><b>Payments up to date:</b></p>	<p>HELP II Loan</p> <p>Yes</p> <p>Yes (As of March 1, 2007, current loan balance is \$266,273)</p>
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**Financial Overview:** EIC’s total expenses increased significantly over the review period. As it has done throughout its history, EIC has conducted sufficient fund raising activities to remain profitable. The balance sheet has improved with the acquisition of property and an increase in unconditional pledges. EIC has the ability to manage the increased loan obligation.

<b>Sources of Revenue:</b> (FYE 6-30-06)	<u>Amount</u>	<u>Percent</u>
Net assets released from restriction	\$985,406	35.2%
Program activity fees	984,888	35.2%
Contributions/Donations	817,721	29.3%
Grants	7,500	0.3%
Interest income	<u>253</u>	<u>0.0%</u>
Total Revenue and Support	<u>\$2,795,768</u>	<u>100%</u>

<u><b>Estimated Sources of Funds:</b></u>		<u><b>Estimated Uses of Funds:</b></u>	
HELP II Loan	\$481,000	Refinance	\$500,000
Equity Contribution	<u>26,500</u>	Financing Costs	<u>7,500</u>
Total Sources	<u>\$507,500</u>	Total Uses	<u>\$507,500</u>

**Legal Review:** No information was disclosed to question the financial viability or legal integrity of the Applicant.

**Staff Recommendation:** Staff recommends the Authority approve a resolution for a HELP II Loan for Tikvah-Etta and Lazear Israel Center for the Developmentally Disabled dba Etta Israel Center in an amount not to exceed \$481,000 for a term of 15 years and subject to a final appraised value on the Valley Village property satisfactory to the Authority.

**STAFF SUMMARY AND RECOMMENDATION**

**TIKVAH-ETTA AND LAZEAR ISRAEL CENTER  
FOR THE DEVELOPMENTALLY DISABLED  
DBA ETTA ISRAEL CENTER**

March 29, 2007

Resolution Number: HII-192

**I. PURPOSE OF FINANCING:** Loan proceeds will be used to refinance an existing 5-year loan with a balloon payment due in November 2010 on its Valley Village property located at 12655 Emelita Street, Valley Village, California. Beginning in 2000 as part of EIC's overall strategic plan, EIC embarked on a multi-year project to establish group homes for developmentally disabled adults. Since 2000, EIC has opened three group homes and currently has 25 clients on the waiting list.

***Refinance existing loan*..... \$500,000**

The current interest rate on this note is 7%. On a comparable commercial loan, the interest expense would be \$297,000 vs. \$117,000 for the HELP II loan over 15 years. With the HELP II loan, EIC will have an interest savings of \$180,000 over the life of the loan, improve cash flow and avoid a balloon payment due in November 2010. Currently, EIC is making interest payments on this loan. Principal payments will begin in June 2007 increasing the monthly payment by \$534.

The 2,730 square foot property was purchased in November 2005 for \$750,000 and the current loan balance is \$500,000. The center opened in November 2006 after the renovations were completed. The center is a group home for men, with accommodations for up to six residents and is currently at maximum capacity. EIC is in the process of having the property appraised by a state certified general licensed appraiser. The HELP II loan will be secured by the Valley Village property. Management estimates its appraisal value at approximately \$850,000.

***Financing Costs* ..... 7,500**

*Authority Closing Fee* ..... \$6,013

*Title/Escrow/Other*..... 1,487

***Total*..... \$507,500**

**Financing Structure:**

- 15-year fully amortized loan term in the amount of \$481,000.
- 180 equal monthly payments of approximately \$3,323 (total annual payments of \$39,876).
- Total interest payments of approximately \$116,906.
- A lien in the amount of \$481,000 on the property located at 12655 Emelita Street in Valley Village, California 91607.
- Corporate gross revenue pledge.
- Maximum loan to value ratio of 95%.
- Estimated loan closing date: April 2007.

**II. FINANCIAL STATEMENTS AND ANALYSIS:**  
**Tivah-Etta and Lazear Israel Center for the Developmentally Disabled**  
**dba Etta Israel Center**  
**Statement of Activities (Unrestricted)**

	Fiscal Year Ended June 30,		
	2006	2005	2004
<b><u>REVENUE AND SUPPORT</u></b>			
Contributions/Donations	\$ 817,721	\$ 901,782	\$ 525,765
Banquet, net	-	180,355	257,977
Grants	7,500	5,000	5,000
Program activity fees	984,888	994,987	1,024,828
Interest income	253	165	147
Net assets released from restrictions	985,406	489,450	10,200
Total revenue and support	<u>2,795,768</u>	<u>2,571,739</u>	<u>1,823,917</u>
<b><u>EXPENSES</u></b>			
Educational services	576,380	484,071	428,611
Residential services	459,217	325,489	333,309
Teacher training	540,101	463,861	490,233
Youth and volunteer services	201,493	-	-
Iranian-American community services	-	133,053	115,556
Fundraising	323,212	-	-
General and administrative	407,221	969,169	690,258
Interest	76,100	40,414	41,459
Total expenses	<u>2,583,724</u>	<u>2,416,057</u>	<u>2,099,426</u>
<b><i>Increase in net assets</i></b>	<b><i>212,044</i></b>	<b><i>155,682</i></b>	<b><i>(275,509)</i></b>
Net assets, beginning of year	88,648	(67,034)	208,475
Net asset release from restriction	75,000	-	-
Net assets, end of year	<u>\$ 375,692</u>	<u>\$ 88,648</u>	<u>\$ (67,034)</u>

Note: In FY 2006, EIC adopted improved accounting procedures to track expenses.

**Tivah-Etta and Lazear Israel Center for the Developmentally Disabled  
dba Etta Israel Center  
Balance Sheet**

	As of June 30,		
	2006	2005	2004
<b><u>ASSETS</u></b>			
Current assets:			
Cash and cash equivalents	\$ 45,863	\$ 57,914	\$ 29,737
Unconditional promises to give	1,788,918	1,659,008	161,576
Total current assets	<u>1,834,781</u>	<u>1,716,922</u>	<u>191,313</u>
Property and equipment, net	1,605,271	784,302	804,123
Other assets	<u>15,279</u>	<u>15,239</u>	<u>14,610</u>
Total assets	<u>\$ 3,455,331</u>	<u>\$ 2,516,463</u>	<u>\$ 1,010,046</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>			
Current liabilities:			
Accounts payable	\$ 188,101	\$ 249,925	\$ 199,123
Accrued expenses	-	-	2,711
Bank overdraft	-	-	13,093
Borrowings under credit agreement	29,455	21,412	-
Unearned revenue	159,462	68,750	-
Short-term debt	382,508	250,287	-
Current portion long-term debt	69,872	52,894	171,104
Total current liabilities	<u>829,398</u>	<u>643,268</u>	<u>386,031</u>
Long term debt	<u>1,115,760</u>	<u>578,560</u>	<u>691,049</u>
Total liabilities	<u>1,945,158</u>	<u>1,221,828</u>	<u>1,077,080</u>
Net assets:			
Unrestricted	375,692	88,648	(67,034)
Temporarily restricted	1,134,481	665,308	-
Permanently restricted	-	540,679	-
Total net assets	<u>1,510,173</u>	<u>1,294,635</u>	<u>(67,034)</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 3,455,331</u></b>	<b><u>\$ 2,516,463</u></b>	<b><u>\$ 1,010,046</u></b>

**Financial Ratios:**

	<b>Proforma (a)</b>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt Service Coverage (x)	1.50	1.61	1.52	(0.78)
Debt/Unrestricted Net Assets (x)	3.34	3.34	7.72	(12.86)
Margin (%)		36.43	45.31	25.01
Current Ratio (x)		2.21	2.67	0.35

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

## **Financial Discussion:**

**EIC's total expenses increased significantly over the review period. As it has done throughout its history, EIC has conducted sufficient fund raising activities to remain profitable.**

From FY 2004 to FY 2006, EIC's expenses increased approximately 25%, primarily from expansion of its existing programs, including educational services, job training and residential group homes. These expanded services required the hiring of staff and incurring additional operational expenses. In FY 2004, grant income and donations decreased as EIC acclimated to intensified operations and embarked on its new philanthropic strategy of targeting major donors. The \$275,000 decrease in net assets was an indicator of the need to do this. EIC relies heavily upon donations and other fund raising activities to remain profitable. In FY 2006, nearly 64.5% of EIC's total revenue consisted of donations and fund raising activities. Remaining revenues are derived from program activities (35.2%) and grant programs (3%).

Management projects revenue for FY 2007 will be greater than FY 2006 figures. A third group home became operational in November 2006 and EIC's redesigned marketing effort in Teacher Training is presently yielding positive results.

**The balance sheet has improved with the acquisition of property and an increase in unconditional pledges. EIC has the ability to manage the increased loan obligation.**

EIC's current balance sheet has improved to a positive net asset position. Cash and cash equivalents increased from \$29,373 in FY 2004 to \$45,863 in FY 2006. Net property and equipment increased by nearly 200% (from \$804,000 in FY 2004 to \$1.6 million in FY 2006) reflecting a purchase of a group home and increased program activities. In FY 2006, a major donor who had originally pledged his funds as a Restricted Asset requested in writing to allow his pledge to be used in any manner that EIC wished. Therefore, the portion of the pledge of \$75,000 that was expected within one year of June 30, 2006 was released to Unrestricted, and the balance of \$465,679 was released to Temporarily Restricted. A proforma debt service coverage ratio of 1.50x indicates that EIC can manage the additional debt.

### III. ORGANIZATION:

#### **Background:**

Tikvah-Etta and Lazear Israel Center for the Developmentally Disabled dba Etta Israel Center (“EIC”), is a California nonprofit organization incorporated in January 1991 in California to raise awareness and sensitivity toward people with special needs. EIC creates programs and service that help children, teenager and young adults. EIC services the Los Angeles community by offering direct care programs such as group home residential facilities, social and recreational activities, special education classes and counseling.

EIC’s activities have diversified over time and are organized under four programs. This enables EIC to offer its expertise to a diverse population of people with special needs as well as to the people who work with these individuals. The four programs are the Residential Services Program, the Youth and Volunteer Services Program, the Educational Services Program and the Teacher Training Program.

#### **Licenses:**

EIC operates three group homes and is licensed through the State of California Department of Social Services. EIC receives approximately 35% of its revenue from program activities.

### IV. UTILIZATION STATISTICS:

EIC has two group homes, which has a maximum occupancy of six residents each. Currently, there are 25 clients on the waiting list. The below table does not include the new group home that opened in November 2006 and is filled to capacity with six residents.

	<b>Etta Israel Center Clients Served</b>		
	Fiscal year ended June 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Totals	13	12	13

**V. OUTSTANDING DEBT:**

Description	Original Amount	Amount Outstanding As of 6/30/06*	Estimated Amount Outstanding After Proposed Financing
<b>Existing:</b>			
HELP II Loan CHFFA, 2002	\$375,000	\$279,952	\$279,952
Loan payable Bank of America, 2003	315,000	270,345	270,345
Notes payable Beach Business Bank, 2005	500,000	500,000	-0-
Loan payable Bank of America, 2006	150,000	135,336	135,336
<b>Proposed:</b>			
HELP II Loan CHFFA 2007			481,000
<b>TOTAL DEBT</b>		<b>\$1,185,633</b>	<b>\$1,166,633</b>

\*Does not include current portion.

EIC purchased a vehicle in December 2006 for \$19,534. This item is not included in the debt outstanding table.

**VI. DUE DILIGENCE:**

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

- Section 15428.5 of the Act (Savings Pass Through) EIC has provided a description of its savings pass through in Exhibit A.
- Section 15459.1 of the Act (Community Service Requirement): EIC has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as Exhibit B.
- Religious Due Diligence
- Legal Review

**VII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution for a HELP II Loan for Tikvah-Etta and Lazear Israel Center for the Developmentally Disabled dba Etta Israel Center in an amount not to exceed \$481,000 for a term of 15 years and subject to a final appraised value on the Valley Village property satisfactory to the Authority.