

**CHFFA HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Didi Hirsch Psychiatric Service, dba Didi Hirsch Mental Health Services (“Didi Hirsch”) 4760 South Sepulveda Boulevard Culver City, CA 90230 (Los Angeles County)</p>	<p>Amount Requested: \$845,000 Requested Loan Term: 15-year fixed Authority Meeting Date: August 29, 2013 Resolution Number: HII-281</p>
<p>Project Site: Via Avanta - 11643 Glenoaks Boulevard, Pacoima, CA 91331 (Los Angeles County)</p>	
<p>Facility Types: Community Mental Health; Rehabilitation</p>	
<p>Eligibility: A health facility pursuant to Government Code section 15432(d)(14),(16)</p>	
<p>Prior HELP II Borrower: Yes (\$153,729 outstanding as of July 31, 2013; payments are current.)</p>	

Issue to Note: Didi Hirsch’s gross revenues for FY 2012 were approximately \$33 million which exceeds the current HELP II Loan Program’s gross revenue maximum of \$30 million. Staff recommends the Authority consider the requested financing for the reasons discussed on page two of the executive summary.

Background: Didi Hirsch provides mental health and substance abuse services through its 11 sites located throughout Los Angeles and Orange Counties. Services offered include crisis intervention and stabilization, counseling, residential treatment, youth-at-risk and family reinforcement programs, and substance abuse programs. Didi Hirsch owns and operates the Via Avanta facility, which is a residential treatment center serving low-income pregnant, parenting, and childless women with substance abuse disorders for more than 34 years.

Uses of Loan Proceeds: The HELP II loan proceeds will be used to finance renovations of an existing facility owned and operated by Didi Hirsch.

Financing Structure:

- 15-year fixed rate for renovation.
- 180 equal monthly payments of approximately \$5,835 (yearly payments of approximately \$70,025).
- First (1st) lien position on the property located at 11643 Glenoaks Boulevard, Pacoima, CA 91331.
- Corporate gross revenue pledge.
- Loan to value ratio not to exceed 95% (estimated loan to value ratio of 30%).

Financial Overview: Didi Hirsch’s income statement appears to exhibit increasing revenues during the review period. Didi Hirsch appears to display a solid balance sheet with a proforma debt service coverage ratio of 2.39x.

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
HELP II Loan	\$ 845,000	Construction and renovation	\$ 1,274,000
Grant - County of Los Angeles*	542,000	Other	204,000
Grant - Ahmanson Foundation*	100,000	Purchase equipment	125,000
Grant - City of Los Angeles*	15,000	Financing costs	15,563
Borrower Funds	116,563		
Total Estimated Sources	<u>\$ 1,618,563</u>	Total Estimated Uses	<u>\$ 1,618,563</u>

* The borrower has received all of the grant funds.

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

Parties of Interest: First American Title Company; Houston/Tyner Architects; and Jensen/Zigman Construction Company.

Staff Recommendation: Staff recommends approval of Resolution Number HII-281 for Didi Hirsch Psychiatric Service in an amount not to exceed \$845,000 for a term not to exceed 15 years contingent upon financing terms acceptable to the Authority. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, concurs with staff recommendations.

I. ISSUE TO NOTE:

The HELP II Loan Program is intended to benefit small and rural health facilities and for small facilities, the program has historically aimed to assist borrowers with annual gross revenues of less than \$30 million per year. Didi Hirsch’s audited statement of financial position for FY 2012 reflects gross revenues of approximately \$33 million. For the 11 months ending May 31, 2013, Didi Hirsch reported unaudited gross revenues of approximately \$34.2 million. The Authority has previously approved similar requests in which applicants exceeded the maximum annual gross revenue limit, including Vista Community Clinic, Inc. at \$30.1 million and LifeLong Medical Care, Inc. at \$31.8 million in 2010 and 2012, respectively.

Staff believes this transaction presents the Authority with a meaningful opportunity to further assist an organization that is currently a HELP II loan borrower, who specializes in much needed mental health programs and wishes to expand its services.

II. PURPOSE OF FINANCING:

While Didi Hirsch has treated low-income substance-abuse women for several decades, the Via Avanta facility is currently not set up to handle the growing population of homeless women with serious mental health issues. In response to this rising need, Didi Hirsch developed *Project 60 Women & Children (Project 60 W&C)*, which is a dual-diagnosis (serious mental illness and addiction) program, at the Via Avanta facility. Didi Hirsch plans to create a new wing with treatment and living space to house *Project 60 W&C*. Didi Hirsch will transform existing space from its residential substance abuse program, and the new wing will accommodate 16 women and four (4) children. The HELP II loan proceeds will only be used to fund a portion of the renovations of the existing facility.

***Renovation of existing facility* \$1,274,000**

The facility renovation of the *Project 60 W&C Wing*, a treatment suite, and site work will include:

- Reconfiguring approximately 6,500 square feet of the existing 22,665 square foot building located on Glenoaks Boulevard;
- Creating nine (9) private and semi-private rooms, including two (2) family suites;
- Creating two (2) health offices, one (1) group room, and one (1) group room/conference room;
- Resurfacing parking lot;
- Restriping parking lot with Americans with Disabilities Act (ADA) compliant parking stalls;
- Establishing ADA path from street to main entry; and
- Installing an irrigation system.

The project will provide a handicap-accessible treatment suite for people with disabilities and give access for basic physical health care. Site work will also be completed to add features compliant with the ADA, and to enhance the site’s visual appearance.

The HELP II loan will be secured by a first (1st) lien position on the property located at 11643 Glenoaks Boulevard, Pacoima, CA 91331, which is an existing building of approximately 22,665 square feet.

According to Kimura Associates, Inc., licensed real estate appraisers, the property has an estimated current market value of approximately \$2.8 million, leading to an estimated loan to value ratio of 30%. A full appraisal on the property will be required prior to closing. The borrower will pay prevailing wage for the Via Avanta project and comply with the requirements of the California Environmental Quality Act, if applicable. Both requirements were conditions for Didi Hirsch to receive grant funding to be used on this project.

Other Costs		204,000
Architect Fees	\$108,000	
Environmental Abatement	55,000	
Insurance, Permits & Fees	<u>41,000</u>	
 Purchase Equipment.....		 125,000
Equipment being purchased for the project will include beds, nightstands, and desks to furnish the resident rooms; new shelving in residential areas; cabinetry, office furniture and equipment for the nurses office in the new <i>Project 60W&C</i> wing; as well as desktop computers and telephones.		
 Financing Costs		 <u>15,563</u>
Authority Fees.....	\$10,563	
Title and Escrow Fees	<u>5,000</u>	
 Total Uses of Funds.....		 <u>\$1,618,563</u>

II. DIDI HIRSCH - FINANCIAL STATEMENTS AND ANALYSIS

**Didi Hirsch Psychiatric Service
DBA Didi Hirsch Mental Health Services
Statement of Activities
(Unrestricted)**

	For the year ended June 30,		
	2012	2011	2010
Revenue and support			
Department of Mental Health contract	\$ 26,862,785	\$ 20,367,604	\$ 18,379,268
Other government contracts	4,201,827	4,063,688	3,443,062
Contribution and grants	275,403	177,156	167,739
In-kind contributions	606,718	966,532	720,183
Special events	356,467	288,799	264,818
Other income	321,090	53,269	197,523
Patient fees	170,538	146,632	142,684
United Way	61,621	96,297	101,746
Net assets released from program restrictions	229,735	194,479	79,133
Total revenue and support	33,086,184	26,354,456	23,496,156
Expenses			
Salaries and wages	\$ 20,789,679	\$ 16,550,736	\$ 15,068,077
Payroll taxes and employee benefits	3,982,895	3,286,666	3,031,201
Operating expenses	4,160,343	2,877,954	2,312,056
Occupancy costs	2,373,787	1,932,835	1,749,978
Donated goods and services	606,718	966,532	720,183
Depreciation	978,397	706,146	533,479
Interest expense	134,198	50,567	50,078
Total expenses	33,026,017	26,371,436	23,465,052
Change in unrestricted net assets	60,167	(16,980)	31,104
Net assets, beginning of year	5,103,307	5,120,287	5,089,182
Net assets, end of year	<u>\$ 5,163,474</u>	<u>\$ 5,103,307</u>	<u>\$ 5,120,286</u>

<u>Net patient service revenue</u>	<u>Percent</u>
Medi-Cal	71
State & County	22
Federal	7
Total	100

**Didi Hirsch Psychiatric Service
DBA Didi Hirsch Mental Health Services
Statement of Financial Position**

	As of June 30,		
	2012	2011	2010
Assets			
Cash and cash equivalents	\$ 3,130,080	\$ 3,515,803	\$ 4,688,969
Accounts receivable	2,302,065	2,193,772	989,743
Prepaid expenses	668,196	747,409	506,618
Total current assets	6,100,341	6,456,984	6,185,330
Donated property held for sale	302,258	-	-
Property and equipment	10,311,321	10,143,089	5,256,919
Total assets	<u>\$ 16,713,920</u>	<u>\$ 16,600,073</u>	<u>\$ 11,442,249</u>
Liabilities and net assets			
Liabilities			
Accounts payable	\$ 750,562	\$ 503,029	\$ 227,256
Accrued liabilities	3,735,611	4,112,944	3,908,502
Accrued unemployment liability	200,876	181,550	188,846
Line of credit	-	-	-
Total current liabilities	4,687,049	4,797,523	4,324,604
Capital lease obligation	295,362	610,665	836,203
Notes payable	5,577,607	5,704,633	824,415
Deferred revenue	243,794	-	-
Total liabilities	<u>10,803,812</u>	<u>11,112,821</u>	<u>5,985,222</u>
Net assets			
Unrestricted	5,163,474	5,103,307	5,120,286
Temporarily restricted	746,634	383,945	336,741
Total net assets	<u>5,910,108</u>	<u>5,487,252</u>	<u>5,457,027</u>
Total liabilities and net assets	<u>\$ 16,713,920</u>	<u>\$ 16,600,073</u>	<u>\$ 11,442,249</u>

Financial Ratios:

	Proforma ⁽¹⁾			
	FYE June 30, 2012	2012	2011	2010
Debt Service Coverage (x) ⁽²⁾	2.39	1.64	1.38	3.28
Debt/Unrestricted Net Assets (x)	1.24	1.14	1.24	0.32
Margin (%)		0.18	(0.06)	0.13
Current Ratio (x)		1.30	1.35	1.43

⁽¹⁾ Recalculates FY 2012 audited results to include the impact of this proposed financing.

⁽²⁾ Proforma debt service improves due to payoff of capital lease as of Jan. 2013

Financial Discussion – Statement of Activities (Income Statement)

Didi Hirsch’s income statement appears to exhibit strong growth in revenues and consistent operations.

Didi Hirsch’s revenue from its contract with the Los Angeles County Department of Mental Health (DMH) grew from approximately \$18.4 million in FY 2010 to approximately \$26.9 million in FY 2012, an increase of approximately 46%. According to management, Didi Hirsch was approached by DMH to consider acquiring certain assets along with the contractual DMH funding of Verdugo Mental Health (VMH), which had filed for bankruptcy. In May 2011, Didi Hirsch entered into a Partial Assumption of Debt and Financing Agreement with the State of California, Office of Statewide Health Planning and Development (OSHDP) to acquire the building and certain assets of VMH in the principal amount of \$5 million with a fixed 3% interest rate. The contractual DMH funding, which Didi Hirsch acquired, was approximately \$5 million per annum, and it is reflected in its revenue as a prorated portion in FY 2011 and as the full funding in FY 2012. Didi Hirsch is forecasting increasing future contract revenues as a whole, and according to Didi Hirsch’s management, contractual revenue from the VMH acquisition has increased to approximately \$8 million for the year ended June 30, 2013.

Particular Facts to Note:

- Change in unrestricted net assets fluctuated over the review period, from approximately \$31,000 in FY 2010 to approximately (\$17,000) in FY 2011, and then rebounded to approximately \$60,000 in FY 2012. According to management, since revenues are derived from cost reimbursement contracts, there is little opportunity to have either a surplus or deficit from operations, as Didi Hirsch is a non-profit. The change in unrestricted net assets each year generally reflects the difference between fundraising activities and other program expenses not covered by contracts. According to management, the VMH site generated over \$62,000 in net contribution to Didi Hirsch’s operating results for the year ended June 30, 2013.
- A significant portion of Didi Hirsch’s revenue, approximately 81% of total revenue in FY 2012, is derived from its contract with DMH. According to management, because Didi Hirsch is a major contractor with DMH, the trend of Didi Hirsch’s revenue generally mirrors those of DMH funding. Given the positive economic trend in the state and local economies, contract revenues are also expected to stay level or rise in the near future. This source of new revenues is expected to continue as Didi Hirsch is often asked by DMH to pilot new mental health programs and initiatives as reflected in the increasing revenues shown on the income statement.
- Other government contracts increased from approximately \$3.4 million in FY 2010 to approximately \$4.1 million and approximately \$4.2 million in FY 2011 and FY 2012, respectively. According to management, the primary component of “Other government contracts” comes from the Los Angeles County Department of Public Health, which provides funding for Didi Hirsch’s substance abuse programs and has remained relatively stable over the past several years.

Financial Discussion – Statement of Financial Position (Balance Sheet)

Didi Hirsch appears to exhibit a solid balance sheet with a proforma debt service coverage ratio of 2.39x.

Didi Hirsch has maintained a solid debt service coverage ratio throughout the review period, from 3.28x in FY 2010 to 1.64x in FY 2012. With a proforma debt service coverage ratio of 2.39x, Didi Hirsch should be able to comfortably repay the additional debt. Didi Hirsch has increased its use of debt, as debt-to-unrestricted net assets rose from 0.32x in FY 2010 to 1.14x in FY 2012, which according to Didi Hirsch's management is primarily attributable to the assumption of VMH's \$5 million debt with OSHPD. With the additional HELP II loan, Didi Hirsch's proforma debt to unrestricted net assets will increase to 1.24x. Didi Hirsch appears to be able to manage its increased debt as revenue from its cost-reimbursement contracts has also increased.

Particular Facts to Note:

- Cash and cash equivalents remains solid, with 36 days cash on hand, which is above the standard target of 30 days, but has steadily declined from approximately \$4.7 million in FY 2010 to approximately \$3.5 million and \$3.1 million in FY 2011 and FY 2012, respectively. According to management, the decrease in cash reflects Didi Hirsch's increased investment in its technology infrastructure during FY 2011 and FY 2012. Additionally, Didi Hirsch implemented a new electronic health record system, which resulted in a delay in billing certain services as the software was being modified by the vendor. Didi Hirsch will bill and collect on those services in the near future, which Didi Hirsch's management indicates will result in a corresponding restoration of cash.
- Accounts receivable rose sharply from approximately \$990,000 in FY 2010 to approximately \$2.2 million in FY 2011, but leveled off in FY 2012 at approximately \$2.3 million. According to management, the majority of receivables consist of earned fees due to governmental contracts, and the increase in FY 2011 reflects the DMH contract Didi Hirsch acquired in the VMH bankruptcy.
- Didi Hirsch's property and equipment nearly doubled from approximately \$5.3 million in FY 2010 to approximately \$10.1 million in FY 2011. According to management, the increase is mainly due to the acquisition of assets from the VMH bankruptcy.
- Notes payable increased by nearly \$5 million in FY 2011, from approximately \$824,000 in FY 2010. According to management, the increase in notes payable is also attributable to the acquisition of assets from the VMH bankruptcy.

EXHIBIT 1

UTILIZATION STATISTICS

Clients Served/ (Patient Visits)

**Didi Hirsch
Fiscal Year Ended June 30,**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Totals	7,795 / (100,099)	6,460 / (69,875)	5,670 / (66,906)

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EXHIBIT 2
OUTSTANDING DEBT

<u>Date Issued</u>	<u>Original Amount</u>	<u>Amount Outstanding⁽¹⁾ As of June 30, 2012</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
-EXISTING LONG-TERM DEBT:			
CHFFA HELP II Loan July 1, 2003	\$ 400,000	\$ 181,807	\$ 153,729
GE Capital September 20, 2000	1,224,000	395,800	395,800
Capital Lease Obligation ⁽²⁾ June 30, 2010	748,746	295,362	-
Office of Statewide Health Planning and Development ⁽³⁾ May 20, 2011	5,000,000	5,000,000	5,000,000
-PROPOSED NEW DEBT:			
CHFFA HELP II Loan			845,000
-TOTAL DEBT		<u><u>\$ 5,872,969</u></u>	<u><u>\$ 6,394,529</u></u>

(1) Includes current portion of long-term debt

(2) Capital Lease obligation paid in full as of January 2013

(3) Interest only years 1 - 3 at 1.75%, 2%, and 2.75%, respectively; Fully amortized years 4 - 33 at 3%

EXHIBIT 3

BACKGROUND AND LICENSURE

Background

The origins of Didi Hirsch date back to the 1930's when a few philanthropists saw a need to provide psychiatric services for unemployed women affected by the Great Depression. Didi Hirsch was founded in 1942 as the first free-standing non-profit outpatient clinic for adults in Los Angeles County. Today, Didi Hirsch provides mental health and substance abuse services through its 11 sites located throughout Los Angeles and Orange Counties. Services offered include crisis intervention and stabilization, counseling, residential treatment, case management, youth-at-risk and family reinforcement programs, delinquency prevention programs, substance abuse treatment and prevention, and extensive community outreach. Didi Hirsch also operates the only free, accredited, 24-hour, seven-days-a-week, suicide prevention crisis line from Orange County to Santa Barbara.

In November 2004, California passed the Mental Health Services Act, which created a new permanent revenue source for Didi Hirsch. The funding has allowed Didi Hirsch to increase its services to the severely mentally ill and expand services for prevention and early intervention. In 2010, Didi Hirsch began providing bereavement services in Orange County to individuals and families who have lost a loved one to suicide. Today, Didi Hirsch's services are more accessible and field-based where necessary, innovative and culturally competent, promote recovery and wellness, and involve clients, family members, and the community.

Didi Hirsch owns and operates the Via Avanta facility, which is located in the northeast San Fernando Valley. Via Avanta is a residential treatment center that has served low-income pregnant, parenting, and childless women with substance use disorders for more than 34 years. The Via Avanta facility allows residents to rebuild their lives in an atmosphere of safety, dignity, and respect. Residents learn about child development and positive parenting while at the same time developing career and job-seeking skills to sustain independent living.

Licensure, Certification and Accreditation

The Via Avanta facility, owned and operated by Didi Hirsch, is licensed by the State of California Department of Alcohol and Drug Programs to operate and maintain an adult residential alcohol and/or drug abuse recovery or treatment facility.

Particular Fact to Note:

Didi Hirsch must obtain Medi-Cal certification from DMH in order to provide mental health services at the Via Avanta site, and the procedures are currently in process. Final certification however, cannot be obtained until the renovations are complete and Didi Hirsch begins providing mental health treatment to its clients at the Via Avanta facility. Didi Hirsch has completed the certification process at two other facilities within the last two years, and they do not anticipate any issues at the Via Avanta site.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

The HELP II Loan Program

Resolution Number HII-281

RESOLUTION APPROVING EXECUTION AND DELIVERY OF HELP II LOAN PROGRAM AGREEMENTS WITH CERTAIN PARTICIPATING HEALTH INSTITUTIONS

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions to refinance existing debt and finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, **Didi Hirsch Psychiatric Service** (the “Borrower”), a California nonprofit corporation and participating health institution, has applied to the Authority for a loan through the Program, and the application has been reviewed by the staff of the Authority; and

WHEREAS, approval of the loan by the Authority is now sought;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. Pursuant to the Act, the Authority approves a loan to the Borrower in an amount not to exceed **\$845,000** for a term not to exceed **15 years** for the purpose described in the application filed with the Authority (the “Project”), but solely to the extent there are available proceeds of the Program, as determined pursuant and subject to Section 2 hereof. This approval is further contingent upon the following conditions:

1. 15-year fixed rate for renovation;
2. First (1st) lien position on property located at 11643 Glenoaks Boulevard, Pacoima, CA 91331;
3. Loan to value ratio not to exceed 95%;
4. Corporate gross revenue pledge;
5. Executed copy of the construction contract;
6. Verification of Borrower’s funds to close escrow;
7. Adequate assurance that documentation has been submitted to the appropriate certification agency for the new renovation project;
8. Proof of certification will be provided to the Authority within approximately 90 days of the loan closing; and
9. A current appraisal of the collateralized property acceptable to the Authority staff.

Section 2. The Executive Director is hereby authorized, for and on behalf of the Authority, to determine the final amount, terms and conditions of the loan, and to approve any changes in the Project described in the application submitted to the Authority, as said officer shall deem appropriate and authorized under the Act (provided that the amount of the loan may not be increased above the amount approved by the Authority and provided further that the loan continues to meet the Authority's guidelines for HELP II loans). Nothing in this resolution shall be construed to require the Authority to obtain any additional funding, even if more loans are approved than there is available funding. Any notice to the Borrower shall indicate that the Authority shall not be liable to the Borrower in any manner whatsoever should such funding not be completed for any reason whatsoever.

Section 3. The Executive Director is hereby authorized and directed, for and on behalf of the Authority, to draw money from the Program fund not to exceed those amounts approved by the Authority for the Borrower. The renovation costs may be funded in two equal disbursements. The Executive Director is further authorized and directed, for and on behalf of the Authority, to execute and deliver to the Borrower any and all documents necessary to complete the transfer of funds.

Section 4. The Executive Director of the Authority is hereby authorized and directed to do any and all things and to execute and deliver any and all documents which the Executive Director deems necessary or advisable in order to effectuate the purposes of this resolution and the transactions contemplated hereby, and which have heretofore been approved as to form by the Authority.

Section 5. This resolution expires six months from the date of approval.

Date of Approval: _____