

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HELP II Loan Program Policy Recommendations January 25, 2007

BACKGROUND:

At the August 24, 2006 meeting, the Chair requested that staff review the current HELP II Program guidelines (Exhibit A) and make recommendations to improve and expand the HELP II Loan Program (“Program”). The Program’s fund balance has increased significantly due to low loan activity (Exhibit B).

PROPOSAL:

Increase maximum loan amount to \$750,000

Presently, the total maximum outstanding combined loan amount is \$500,000. Due to the interest for higher loan amounts, staff is proposing to increase the loan amount from \$500,000 to \$750,000, while maintaining the existing underwriting guidelines.

In 2002, the Authority in conjunction with NCB Capital Impact (“NCB”), addressed borrowers’ demand for loans up to \$1.4 million with the HealthCAP Program. Eligible borrowers obtained loans ranging from \$400,000 to \$1 million from NCB combined with a HELP II loan up to \$400,000. Over a two-year period, 21 qualified facilities received loans totaling approximately \$15 million, resulting in HealthCAP funds being exhausted.

With the proven success and popularity of the HealthCAP Program, the proposed increase in the lending level from \$500,000 to \$750,000 should generate additional interest and activity.

Expand applicant pool

The Program was created to assist small and rural facilities. A gross revenue limit has assisted the Authority in defining a “small” facility. The current guidelines state that only health facilities with gross revenues under \$20 million and district hospitals (regardless of gross revenue) are eligible. Staff is proposing to raise the gross revenue limitation from \$20 million to \$30 million, allowing slightly larger organizations to become eligible.

The Program does not separately define a “rural” health facility. Rural health facilities currently qualify only when meeting the definition of “small” facilities. Staff would add rural health facilities as a category, making them exempt from the gross revenue limitation.

In order to determine whether a borrower is eligible as a rural facility, the project location must be designated within a rural “Medical Service Study Area” (MSSA). The Office of Statewide Health Planning and Development has detailed MSSA maps for California counties.

Enhance the marketing of the HELP II Loan Program

Staff intends to develop a plan to aggressively distribute information to eligible health facilities including community clinics that did not receive a Community Clinic Grant, rural health facilities, and other healthcare facilities.

In addition, staff will increase the Program's exposure by collaborating with various health associations to reach potential borrowers. This marketing campaign should increase visibility by linking the Authority's website to the associations' websites. Staff also intends to increase its exposure by attending various health association seminars.

Lastly, statewide seminars and workshops will be held to educate potential borrowers about the Program.

STAFF RECOMMENDATION:

Staff recommends the Authority increase the total maximum outstanding combined loan amount to \$750,000 for any one borrower; increase the gross revenue limitation to \$30 million for small health facilities; and add the category of rural health facilities as an eligible borrower.

Exhibit A

Current Guidelines

The “General Requirements” as stated in the HELP II application package (some are statutory) are the following:

- Annual gross revenues cannot exceed \$20 million as shown on the most recent audited financial statement (District Hospitals are exempt from this requirement).
- Must qualify as a health facility under the Authority's enabling legislation. (Statutory)
- Must be a non-profit 501(c)(3) corporation, or a public health facility (e.g. District Hospital). (Statutory)
- Must have been in existence for at least three years performing the same type(s) of services.
- Must provide three years audited financial statements.
- Must demonstrate evidence of fiscal soundness and the ability to meet the terms of the loan. (Statutory)
- Must show readiness to begin projects shortly after funding for construction and remodeling projects.
- Must provide for consumer savings and community benefit.

Some of the other terms and conditions are:

- 3% fixed interest rate.
- The minimum loan amount is \$25,000 and the maximum amount is \$500,000.
- The maximum combined loan to value ratio is 95%.
- A 15-year maximum maturity for real estate loans and five (5) years for equipment loans.
- A revenue pledge is required. Additional collateral (equipment and/or real estate) is generally required.
- The loans are fully amortized with no prepayment penalties.
- The minimum debt service coverage ratio is 1.10.

Exhibit B

2004

Substance Abuse Foundation of Long Beach	Long Beach	Los Angeles	\$	400,000	1/26/2004
Gateways Hospital and Mental Health Center	Los Angeles	Los Angeles		150,000	2/13/2004
Southern Indian Health Council, Inc.	Campo	San Diego		400,000	2/25/2004
Coalition for Elders' Independence	Oakland	Alameda		400,000	2/26/2004
Canyon Acres Children and Family Services	Anaheim Hills	Orange		400,000	4/2/2004
Open Door Community Health Centers	Eureka	Humboldt		360,000	5/21/2004
Bi-Bett	Vallejo	Solano		400,000	6/21/2004
Dientes! Community Dental Clinic	Santa Cruz	Santa Cruz		400,000	6/23/2004
Escuela del Rio - 3	Atascadero	San Luis Obispo		124,058	6/29/2004
Innovative Health Care Services	Chico	Butte		400,000	6/30/2004
Sanctuary House of Santa Barbara, Inc.	Santa Barbara	Santa Barbara		400,000	7/2/2004
Seneca Residential and Day Treatment Center for Children	San Leandro	Alameda		151,852	7/14/2004
Henry Ohlhoff House	Novato	Marin		400,000	7/15/2004
Aldersly	San Rafael	Marin		400,000	7/20/2004
14 Total Borrowers 2004			\$	4,785,910	

2005

Community Research Foundation, Inc.	San Diego	San Diego	\$	400,000	1/7/2005
Advent Group Ministries, Inc.	Morgan Hill	Santa Clara		400,000	1/27/2005
Nevada County Council on Alcoholism, Incorporated	Grass Valley	Nevada		270,000	3/18/2005
Orange County ARC -3	Anaheim	Orange		400,000	4/7/2005
West County Health Centers, Inc.	Guerneville	Sonoma		212,000	5/3/2005
Youth Connection of Ventura County [The] (dba Casa Pacifica)	Camarillo	Ventura		500,000	12/21/2005
6 Total Borrowers 2005			\$	2,182,000	

2006

Yolo Family Service Agency -3	Woodland	Yolo	\$	320,000	2/7/2006
Yolo Community Care Continuum	Woodland	Yolo		407,000	3/15/2006
ARC of Amador & Calaveras (The) -4	Sutter Creek	Amador		255,000	3/22/2006
Elizabeth Center for Cancer Detection (The)	Los Angeles	Los Angeles		40,000	7/27/2006
National Health Service, Inc. -2	Tehachapi	Kern		300,000	11/8/2006
Tulare Youth Service Bureau, Inc. -2	Tulare	Tulare		500,000	12/7/2006
6 Total Borrowers 2006			\$	1,822,000	