HELP II LOAN PROGRAM
Discussion of Unqualified Applicants

April 24, 2003

BACKGROUND: The Authority requested staff to provide some examples of applicants for the HELP II loan program who applied for financial assistance but were not brought forward to the Authority for consideration.

POTENTIAL APPLICANT: Staff typically fields 8-10 phone calls a month requesting information about the HELP II loan program. Initially, staff asks the caller a few questions to determine eligibility as a non-profit healthcare provider, longevity of the organization and financial stability. Secondly, staff will discuss the feasibility of the proposed project, refinancing opportunities or other uses of loan proceeds. Generally, most of the callers are deemed eligible based on the information provided. As a courtesy, staff will often offer to "pre-qualify" an applicant and review its financial condition or determine eligibility as a healthcare provider in advance of submitting an application.

A sampling of calls from applicants not deemed eligible includes inquiries about start-up organizations, healthcare providers that are unlicensed, organizations without audited financial statements or those providing an ineligible service in accordance with the definition of healthcare facilities in the Authority's Act.

APPLICANT DEEMED UNQUALIFIED: Following submission of an application to the Authority, staff reviews the audited financial statements and calculates the various ratios. Should staff determine that an applicant would not be brought before the Authority for consideration, the reasons generally relate to the poor financial performance of the organization. These reasons include very low debt-service coverage ratios and/or high debt. Other considerations include conflicts of interest within the organization or an ineligible provider of healthcare services.

Attached are two examples of applicants that were not brought before the Authority for various reasons. Staff has suggested ways for these organizations to improve or adjust the proposed project, but these suggestions have not been heeded in order to bring a favorable staff recommendation.

HELP II LOAN PROGRAM EXPECTATIONS: With the recent surge in demand for HELP II loans, staff expects increased activity in the future to qualify applicants in the initial contact stages and after applications are received. It is the desire of staff to continue working with any potential applicant to provide financial assistance to all that meet the guidelines, with minimal exceptions, in order to meet the objectives of the HELP II loan program.

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Applicant: Group Home Facility for Abused Girls Ages 12-17

Requested Amount: $220,000 ($175,000 Property/$45,000 Equipment)

Loan Term: 10/5 Years Property/Equipment

Location: Bakersfield, Kern County

Use of Loan Proceeds: Purchase a home to expand its capacity by 6 beds & Purchase Equipment.

Financial Overview:

- Debt Service Coverage Ratio was calculated at .58x, which is below the minimum of 1.25x.
- Mother of the CEO held a promissory note of the organization for start-up expenses.
- CEO & CFO (Husband & Wife) owned a home that is leased back to the organization.

Staff Suggestions to Applicant:

In order to improve the debt service coverage ratio, staff suggested that the leased home be purchased to eliminate lease payments. In addition finance the purchase of the second home.

A second suggestion was to eliminate equipment purchases. The debt service coverage ratio would have improved to 1.0 plus.

The organization was not receptive to either suggestion.

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Applicant: Alcohol and Drug Abuse Prevention Facility

Requested Amount: $400,000

Loan Term: 15 Years

Location: Fresno, Fresno County

Use of Loan Proceeds: Purchase and renovate an existing building to expand its capacity, however demand for services was not demonstrated.

Financial Overview:

- Debt Service Coverage Ratio was calculated at .60x, which is below the minimum of 1.25x.
- Revenues were basically flat for three fiscal years, with projections revealing little improvement.
- Expenses continued to increase, especially payroll. In addition, the organization was bearing the cost of excessive repairs on a building that had not been previously been maintained. If this trend continues, the future profitability of the organization remains in doubt.
- The purchase was determined to be too expensive for the financial condition of the applicant.

Staff Suggestions to Applicant:

In order to improve the debt service coverage ratio, staff suggested purchasing a smaller size facility and make loan payments more in line with the current lease payments.