

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (“Authority”)**

**HELP II Loan Program**

**Resolution of the California Health Facilities Financing Authority Approving  
the Delay of Legal Remedies Related to Delinquent HELP II Loan  
Payments of Yolo Family Service Agency**

**Resolution Number HII-299A**

**May 24, 2018**

**PURPOSE OF THE REQUEST:**

Yolo Family Service Agency (“YFSA”) is requesting the Authority delay seeking legal remedies for the two delinquent HELP II loans to allow CommuniCare Health Centers (“CommuniCare”) the opportunity to perform the due diligence necessary prior to purchasing the current YFSA property.

**BACKGROUND:**

In March 2016, YFSA was approved by the Authority for a refinancing loan in an amount not to exceed \$190,000 and a construction loan (together with the refinancing loan, the “Loans”) in an amount not to exceed \$200,000. The purpose of the construction loan was to expand and remodel YFSA’s existing facilities located at 455 1<sup>st</sup> Street, Woodland, CA (the “Property”). As security collateral for the Loans, the Authority received the first and second lien position on the Property. The refinancing loan was disbursed for \$177,000 and a partial disbursement of \$100,000 was made for the construction loan. Currently, approximately \$162,000 is outstanding for the refinancing loan and approximately \$88,000 is outstanding for the construction loan.

At the time of approval, YFSA demonstrated a strong ability to repay the requested Loans with debt service coverage ratios of 2.59x and 4.12x in FY 2014 and FY 2015, respectively. Even with a full disbursement of the construction loan, YFSA’s pro-forma debt service coverage ratio showed an improvement to 4.17x due to the refinancing loan. YFSA demonstrated further financial improvement in FY 2016 as its financial audit displayed a debt service coverage ratio of 4.49x.

Although YFSA was demonstrating that it earned sufficient revenue to repay its debts, the organization consistently had difficulty making its debt payments to the Authority on time. YFSA’s main source of revenue was derived from reimbursements from Yolo County (the “County”) contracts. YFSA has historically struggled with receiving reimbursements from the County in a timely manner, which in turn caused YFSA to be late on numerous loan payments to the Authority. However, the payments were generally made, along with any assessed late fees, within the following month. February 2018 was the first time YFSA missed two consecutive payments and CHFFA staff sent a late payment notice to YFSA on March 7, 2018. YFSA then missed the March payment on the Loans, and in early April CHFFA staff followed protocol of beginning the process of referring the matter to the State Treasurer’s Office (“STO”) legal counsel. For calendar year 2018, YFSA has only made the January payment for the refinancing loan, but has not made any payments for the construction loan.

A recent audit of YFSA's operations by the County revealed that YFSA's troubles were more than its ability to collect timely reimbursement payments from the County. The County's audit discovered that YFSA's FY 2017 revenues likely decreased due to several factors:

1. YSFA was not billing the proper rates on its contracts;
2. A separate leased facility was not properly licensed for mental health services, which prevented YFSA from billing its services at a higher rate;
3. Loss of staff clinicians who were not replaced in a timely manner led to a decrease in services provided and thereby revenues as well.

YFSA did not complete a 2017 financial audit, but did submit to the Authority an unaudited Statement of Activities for FY 2017. The Statement of Activities demonstrated a considerable decrease in total revenues from approximately \$1.35 million in audited FY 2016 to approximately \$872,000 in unaudited FY 2017.

YSFA notified CHFFA staff that due to the severe loss in revenues, it appeared YSFA would no longer be able to continue as a business. YFSA suspended its operations on April 30, 2018, and concurrently CommuniCare began serving YFSA's patients at other CommuniCare facilities. CommuniCare provides comprehensive health care services delivered through clinic sites and outreach programs throughout the Yolo County region. CommuniCare's services include primary medical and dental health care, behavioral health services, substance abuse treatment, health education, and support services.

#### **ISSUE:**

On May 7, 2018 the Authority staff, STO legal counsel, and CommuniCare management discussed CommuniCare's plans to assume YFSA's county contracts to continue serving YFSA's clients.

CommuniCare expressed interest in purchasing the Property and informed staff they must first perform its due diligence and inspections of the Property prior to purchase. However, CommuniCare is concerned the Authority could begin foreclosing on the Property while CommuniCare is completing its due diligence process. As YFSA has defaulted on the Loans, per Section 7(g) of the Loan & Security Agreement, the Authority may exercise any and all remedies available by law to enforce payment of all amounts owed. The following proposal has been put forth for the Authority to delay the foreclosure process to allow CommuniCare the necessary time to perform its due diligence.

- CommuniCare will enter into a short-term lease agreement with YFSA in order to serve clients at the Property;
- The lease agreement will provide CommuniCare with the option to purchase the Property no later than December 31, 2018;
- Both outstanding HELP II loans will be made current;
- Beginning with the June 2018 payment, CommuniCare will make monthly loan payments for both loans directly to the Authority on behalf of YFSA;
- CommuniCare will submit an application for a HELP II loan to purchase the building at the Authority's June 28, 2018 board meeting.

**Eligibility**

CommuniCare has submitted its most recent three years of audited financial statements, operating licenses, the Legal Status Questionnaire, and the Religious Affiliation Questionnaire. Authority staff has determined that CommuniCare meets the eligibility requirements of the HELP II Loan Program as a non-profit 501(c)(3) corporation with a Federally Qualified Health Center designation. CommuniCare is currently licensed through the Department of Public Health to operate community clinics in West Sacramento, Davis, and Woodland. In FY 2017, CommuniCare's gross revenues were less than the \$30 million program maximum.

**RECOMMENDATION:**

Authority staff recommends approval of Resolution HII-299A to delay legal remedies related to the delinquent Yolo Family Service Agency HELP II loan payments.

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Loan Program**

**Resolution Number HII-299A**

**RESOLUTION APPROVING THE DELAY OF LEGAL REMEDIES RELATED TO DELINQUENT HELP II LOAN PAYMENTS OF YOLO FAMILY SERVICE AGENCY**

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 finance or refinance 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, on March 24, 2016, Yolo Family Services Agency, (the “Borrower”), a California nonprofit corporation and participating health institution, was approved for two Program loans in a total amount of \$390,000, of which approximately \$249,427 remains outstanding (Resolution No. HII-299);

WHEREAS, Borrower has not made any payments since February 2018, is currently in arrears on their HELP II loans in the amount of \$8,272.62, and has ceased operations. Borrower’s loan is secured by first and second liens on their property located at 455 1st St, Woodland, California 95695 (the “Property”);

WHEREAS, CommuniCare Health Centers, Inc. (“CommuniCare”), a non-profit 501(c)(3) corporation that provides primary medical and dental health care, behavioral health services, substance abuse treatment, health education and support services to low income residents of Yolo County. CommuniCare has expressed interest to Authority staff in possibly purchasing Borrower’s Property and making loan payments on Borrower’s behalf. The Authority staff recommends the approval of Resolution No. HII-299A as hereinafter set forth; and

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

Section 1. The Authority hereby declares it will not foreclose on any HELP II loan in Borrower’s name. This declaration is subject to the following conditions:

1. CommuniCare must act in good faith and in a timely manner in all actions related to the purchase of Borrower’s Property.
2. CommuniCare must provide the Authority staff, upon request, updates on its progress towards its purchase of Borrower’s Property.
3. The Authority will review CommuniCare’s progress towards purchasing Borrower’s Property no later than August 31, 2018. Should the Authority not be satisfied with CommuniCare’s progress, this Resolution No. HII-299A is subject to revocation at that time.

Section 2. This Resolution No. HII-299A expires December 31, 2018.

Date Approved: \_\_\_\_\_