Department of Health Care Access and Information

May 23, 2023

California Health Facilities Financing Authority Members
901 P Street, Room 313
Sacramento, CA 95814

Distressed Hospital Loan Program Evaluation Methodology

Dear Authority Members,

The Distressed Hospital Loan Program (Program) was established through Chapter 6, Statutes of 2023 (Assembly Bill 112). The legislation requires the Department of Health Care Access and Information (HCAI) and the California Health Facilities Financing Authority (CHFFA) to collaboratively develop the Distressed Hospital Loan Program to offer interest-free, working capital loans to non-profit and publicly-operated financially distressed hospitals, including hospitals that belong to integrated health care systems with no more than two separately licensed hospitals in California that are facing a risk of closure, or to governmental entities representing a closed hospital, while they implement turnaround strategies to regain financial viability.

Section 129383 (a) specifies that HCAI, in collaboration with other California Health and Human Services (CHHS) sister departments, shall develop a methodology to evaluate an at-risk hospital's potential eligibility for state assistance from the Program. HCAI has developed the following methodology we are proposing to use to evaluate loan applications for the Program.

There are four primary areas of focus when evaluating loan applications:
1. Liquidity
2. Profit or Loss Analysis
3. Turnaround Plan
4. Community Need

Within each area, we will evaluate factors in more detail and apply scoring to determine if an application will be approved for a loan from the Program. Below are more details regarding how each area of focus will be evaluated and scored.

Criteria #1 – Liquidity

- Criteria 1.1 – Days Cash on Hand Ratio Evaluation

Is the hospital currently struggling with liquidity and at risk of running out of working capital to maintain operations, sustain services, or pay employees?

More Points	30-days or less
	31 to 45-days
	46 to 60-days
	61 to 75-days
	76 to 90-days
Less Points	Above 90-days

We will calculate the applicant's Days Cash on Hand ratio. A lower ratio means that the hospital may not have adequate working capital to support all of its operating cash flow needs. More points and consideration will be given to applicants with a lower Days Cash on Hand ratio.

- Criteria 1.2 – Current Ratio Evaluation

Is the hospital able to pay its short-term obligations?

More Points	Less than 1.0
	1.0 to 1.25
	1.26 to 1.5
Less Points	Higher than 1.5

The Current Ratio looks at a slightly longer-term picture to see if the hospital has enough working capital to cover its short-term obligations due within one year. More points and consideration will be given to applicants with a lower Current Ratio.

- Criteria 1.3 – Access to Working Capital

The hospital has attempted to secure lines of credit or other working capital and has been turned down, or only offered terms that are not economically viable.

More Points ↕ Less Points	Applicant has been denied alternatives to outside working capital.
	Applicant has access to an un-utilized working capital loan or has not attempted to obtain one.

For this criteria, we are asking for the hospital's leadership to attest that they have exhausted all alternatives for working capital assistance and no other options are feasible. A hospital that has searched for alternatives and been denied will receive more points and consideration.

Criteria #2 – Profit/Loss Analysis

- Criteria 2.1 – Operating Margin

Is the hospital experiencing operating or net losses? The Program will calculate the Operating Margin for the last audit and the current year-to-date financial statements (excluding one-time pandemic related funding).

More Points ↕ Less Points	Both periods negative
	One period negative and one period positive
	Both periods positive

This criteria evaluates a hospital's operating margins to verify that the hospital has not been generating positive cash flow from operations. An applicant that has been experiencing negative operating margins in its last audited financial statements as well as its year-to-date financial statements will receive higher scoring and consideration in this criteria.

- Criteria 2.2 – Impact of Operating Loss to Liquidity

The Program will calculate the hospital's "Net Cash Runway" which is equal to Cash Balance ÷ Monthly Average Operating Loss (excluding depreciation and non-cash expenses).

More Points:	6 months or less
↕	7-12 months
	13-18 months
	19-24 months
	25-months or higher
Fewer Points:	No operating loss

The Program will calculate the hospital's monthly cash burn rate and determine how long its current working capital will last to sustain its operations. Higher scores and consideration will be given to hospitals with shorter operating runway.

Criteria #3 – Turnaround Plan

Does the hospital's plan with 24-month projection demonstrate the implementation of strategies will result in financial stability?

Turnaround Plan Summary:

- 24-month cash-flow projection
- Narrative describing actions being taken by leadership.
- Projections show how loan utilized.
- Description of how actions will affect various revenue and expense line items

More Points:	Plan demonstrates a return to financial stability (no longer burning cash) with no change to lines of services, and hospital begins making payments on the DHLP loan.
	Plan demonstrates a return to financial stability with limited change to lines of services, and hospital begins making payments on the DHLP loan.
	Plan demonstrates a return to financial stability with major change to lines of services, and hospital begins making payments on the DHLP loan.
	Plan demonstrates the hospital has engaged professional consultants to solicit a sale, merger or partnership that will return the hospital to financial stability.
Less Points:	Plan demonstrates the hospital will need to engage professional consultants to solicit a sale, merger or partnership, or Plan demonstrates that the loan will extend the runway but does not illustrate a feasible path to financial stability.

Program staff will analyze a hospital's turnaround plan and cash flow projections and assign a score based on the revenue and expense projections and feasibility of the assumptions.

Criteria #4 – Community Need

- Criteria 4.1 – Distance to nearest alternative hospital

What are the access to care impacts for the provider network and service offerings in the community if the hospital were to close?

More Points: ↕ Less Points:	Nearest Hospital is greater than 15-miles or 30 minutes driving time.
	Multiple alternatives offering similar services nearby.
We will map all hospitals within a 15-mile or 30-minute driving time distance and evaluate if other hospitals, offering similar services that the applicant offers are in the area or not. More points and higher consideration will be given to applicants that are the only ones in their area offering needed services.	
• Criteria 4.2 – Hospital planning to eliminate needed lines of services in its community.	
What services are being eliminated and what is the alternate plan for providing services?	
More Points: ↕ Less Points:	The hospital will not eliminate lines of services in its community.
	The hospital is planning to eliminate needed lines of services in its community.
• Criteria 4.3 – Service Area Designation	
The hospital is located in a Medically Underserved Area (MUA) or a Medically Underserved Population (MUP)	
More Points: ↕ Less Points:	The hospital is located in a both a MUA and MUP.
	The hospital is located in either a MUA or an MUP.
	The hospital is not located in either a MUA or MUP.
Each hospital falls into a particular Medical Service Study Area (MSSA) classified by HCAI. We will look up each hospital's location to figure out what type of classification the applicant resides. Applicants residing in special underserved areas will receive higher points and more consideration.	
• Criteria 4.4 – Payor Mix	

<table>
<tr><td colspan="2">The hospital payor mix is predominantly Medi-Cal, Medicare, and uninsured/discount or charity care.</td></tr>
<tr><td rowspan="2">More Points:

Less Points:</td><td>Greater payor mix of Medi-Cal, Medicare and uninsured/discount or charity care.</td></tr>
<tr><td>Lower payor mix of Medi-Cal, Medicare, and uninsured/discount or charity care.</td></tr>
<tr><td colspan="2">An applicant’s payor mix will be reviewed. Higher points and more consideration will be given to an applicant that has a higher payor mix of Medi-Cal, Medicare, and uninsured/discount or charity care.</td></tr>
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The above criteria are currently being circulated to CHHS’s sister departments for feedback. HCAI and CHFFA are also reviewing feedback received from a recent stakeholder webinar that was conducted on May 23rd. We welcome any feedback or comments from the CHFFA Authority Members as well. HCAI will make appropriate revisions to this methodology based on all collected feedback, and HCAI will finalize the methodology before loan applications are released to hospitals.

We appreciate CHFFA’s partnership in this needed program and thank the Authority Members for their consideration.

Thank You,

J.P. Marion, Deputy Director
Department of Health Care Access and Information
Office of Health Facility Loan Insurance