

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (“Authority”)
STAFF SUMMARY AND RECOMMENDATION**

HELP II Program

Gateways Hospital and Mental Health Center (“Gateways”)

Resolution Number 2011-10

September 29, 2011

PURPOSE OF THE REQUEST:

Gateways Hospital and Mental Health Center (“Gateways”) asks the Authority to subordinate its first lien position on Gateways’ gross revenues (pledged by Gateways to secure the Authority’s HELP II loan) in favor of the Office of Statewide Health Planning and Development of the State of California (the “Office”) as requested by the Office given the Office’s intention to insure Gateways’ Authority Series 2011 A & B Bonds (the “2011 Bonds”). In connection with the issuance of the 2011 Bonds, the Office has agreed to provide credit enhancement pursuant to its Cal-Mortgage Loan Insurance Program.

BACKGROUND:

At its October 30, 2003 board meeting, the Authority approved Resolution Number HII-154 for Gateways which authorized a HELP II loan for \$150,000. Loan proceeds were approved (to be used along with other funding sources) to renovate four existing properties located at 415 – 423 Hoover Street, Los Angeles, California, which housed mentally ill homeless adults and provided space for support services. At the time of the financing, the properties were appraised at \$1.1 million. Currently, the Authority has a first lien position on Gateways’ gross revenues as well as a first lien position on all four aforementioned parcels of real property. Gateways is current on its Help II loan payments and the current balance is approximately \$43,153 equating to a loan to value ratio of approximately 4% based on the appraisal dated August 1, 2003.

In September 2011, Gateways applied for financing through the Authority’s bond financing program in the amount not to exceed \$8,225,000¹. The Office has agreed to provide credit enhancement for the bonds. In connection with the proposed bond financing, the Office requires a first position lien on Gateways’ gross revenues. Consequently, Gateways now requests the Authority to subordinate its first position lien on Gateways’ gross revenues in favor of the Office. Staff has reviewed the most recent audited financial statements for Gateways (period ending FY 6/30/10) as well as its unaudited interim financial statements (period ending FY 6/30/11) and concludes Gateways appears to remain fiscally healthy, with a solid proforma debt service coverage ratio of 2.74x.

Staff recommends the Authority agree to subordinate its first position lien on Gateways’ gross revenues in favor of the Office given the Authority will maintain a first lien position on substantially valued real property and given the current state of Gateways’ financial position – to enable Gateways to proceed with the issuance of the 2011 Bonds.

RECOMMENDATION:

Staff recommends the Authority approve Resolution Number 2011-10 to subordinate the Authority’s first lien position on Gateways Hospital and Mental Health Center’s gross revenues to the Office of Statewide Health Planning and Development of the State of California.

¹ Please note this item appears as Agenda Item No. 5 on the Authority’s current agenda.

EXHIBIT 1
FINANCING TEAM

Trustee: U.S Bank Corporate Trust Services

Trustee Counsel: Dorsey & Whitney LLP

Bond Trustee: U.S Bank Corporate Trust Services

Rating Agency: Standard & Poor's Ratings Services

Underwriter: Piper Jaffray & Co.

Co-Underwriter: Edward D. Jones L.P

Issuer's Financial Advisor: Public Financial Management, Inc.

Issuer's Financial Analyst: Macias Gini & O'Connell, LLP

Issuer's Counsel: Attorney General Office

Bond Counsel: Quint & Thimmig LLP

Corporate Counsel: Law Offices of Harvey Richelson

Disclosure Counsel: Wilson Law Group

Borrower Financial Advisor: H.G. Wilson Consulting

Auditor: Vavrinek, Trine, Day & CO., LLP