

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

**The HELP II Program**

**Social Science Services, Inc. (the “Borrower”)**

**Resolution Number 2011-11**

**September 29, 2011**

**PURPOSE OF THE REQUEST:**

Social Science Services, Inc. (the “Borrower”) asks the Authority to subordinate its first position lien on the Borrower’s gross revenues currently in place (securing the Borrower’s existing HELP II loan with the Authority) 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 the Borrower’s Authority Series 2011 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 December 6, 2007 board meeting, the Authority approved Resolution Number HII-211 for the Borrower which authorized a HELP II loan for \$722,000. Loan proceeds were approved (to be used along with other funding sources) for the acquisition of a three bedroom and one bath home residing on a 4.4-acre parcel of land located directly across from its existing current facility in Bloomington, California. In November 1, 2007, the real property appraised for \$780,000 and was purchased below market value at \$776,000. Currently, the Authority maintains a 1<sup>st</sup> lien position on both the Borrower’s gross revenues as well as the aforementioned real property. The Borrower is current on its HELP II loan payments and the current balance is approximately \$581,000 equating to a loan to value ratio of approximately 80% (based on appraisal dated November 1, 2007<sup>1</sup>.)

In April, 2011, the Borrower applied for and was approved for financing through the Authority’s bond financing program in an amount not to exceed \$1.27 million. The Office has agreed to provide credit enhancement for the bonds. In connection with the financing, the Office requires a first lien position on the Borrower’s grow revenues. Accordingly, Borrower requests the Authority to subordinate its first lien position on the Borrower’s gross revenues to the Office.

Staff has reviewed the most recent audited financial statements for the Borrower (period ending FY 6/30/10) as well as its unaudited interim financial statements (period ending FY 6/30/11) and concludes the Borrower appears to remain fiscally healthy, with a sufficient debt service coverage ratio of 1.64x for FY 2010.

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<sup>1</sup> Staff is comfortable with this loan to value estimation and can elaborate further on this at the time of the meeting.

Staff recommends the Authority agree to subordinate its 1<sup>st</sup> lien position on the gross revenues in favor of the Office given the Authority remains in 1<sup>st</sup> lien position on the Borrower's real property (with seemingly ample security) and given the current state of the Borrower's financial position to enable the Borrower to proceed with the issuance of the 2011 Bonds.

**RECOMMENDATION:**

Staff recommends the Authority approve Resolution Number 2011-11 allowing the Authority to subordinate its 1<sup>st</sup> lien position on Social Science Services, Inc.'s gross revenues in favor of the Office of Statewide Health Planning and Development of the State of California.