

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

The HELP II Program

FamiliesFirst, Inc. (“FF”)

Resolution Number 2011-12

September 29, 2011

PURPOSE OF THE REQUEST:

FamiliesFirst, Inc. (“FF”) asks the Authority to execute a subordination agreement in favor of JP Morgan Chase Bank, N.A. (“Chase”), the recent private placement purchaser of FF’s Authority Series 2011A Bonds (the “2011 Bonds”). The Authority currently maintains a first lien position on FF’s gross revenues as pledged pursuant to the existing HELP II loan FF maintains with the Authority.

BACKGROUND:

At the July 26, 2007 board meeting, the Authority approved Resolution Number HII-198 in favor of Eastfield Ming Quong (“EMQ”)¹, authorizing a HELP II loan for \$844,753 of which \$641,589.04 remains outstanding. FF, the successor entity to EMQ, pledged its gross revenues and real property (at that time the borrower estimated the value at \$2.7 million) to secure the Authority’s loan. Based on the current outstanding balance and the borrower’s estimation, FF’s loan to value ratio is currently an acceptable 24%.

At the August 25, 2011 board meeting, the Authority approved Resolution Number 367 and authorized bond proceeds to be issued in an amount not to exceed \$15,500,000 in a private placement transaction with Chase. Bond proceeds will be used to refund California Statewide Communities Development Authority Series 1997A Certificate of Participation and CHFFA Series 2000A Bonds. The remaining funds will be used for capital improvement projects at various sites². Chase entered a binding agreement to purchase the 2011 Bonds on September 12, 2011 and the transaction is set to close September 29, 2011.

As part of the structure of the private placement financing, FF agreed to pledge its gross revenues to Chase as additional security for payment of the bonds. FF now requests the Authority to subordinate the gross revenue pledge to Chase. The Authority will maintain a 2nd position on the gross revenue pledge and a first position on the above referenced real property. Staff has reviewed the most recent audited financial statements for FF (period ending FY 6/30/10) and it appears to remain fiscally healthy, with a solid proforma debt service coverage ratio of 2.10x.

¹ EMQ and FF merged in 2009, creating the current entity FamiliesFirst, Inc.

² Please note, FF is also requesting board approval, pursuant to a separate resolution, for authorization to potentially utilize some of the bond proceeds to prepay the 2007 HELP II loan.

Staff recommends the Authority agree to subordinate its 1st lien position on the gross revenue pledge to Chase to enable FF to proceed with the issuance of the 2011 Bonds given the Authority remains in the 1st lien position on the Deed of Trust (real property) with ample security therein and the current state of FF's financial position.

RECOMMENDATION:

Staff recommends the Authority approve Resolution Number 2011-12 to permit the Authority to subordinate its 1st lien position on FamiliesFirst, Inc.'s gross revenues to JP Morgan Chase Bank, N.A..