

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
STAFF SUMMARY AND RECOMMENDATION
Northeastern Rural Health Clinics**

Resolution Number 2010-31

October 28, 2010

PURPOSE:

Northeastern Rural Health Clinics (“Northeastern”) has defaulted on one of the non-financial based covenants contained within its HELP II loan agreement, as more particularly described below, and staff herein submits a recommendation to address the default.

BACKGROUND:

The Authority approved a \$142,200¹ HELP II loan for Northeastern in February 2002, in conjunction with Cedillo-Alarcón grant funds of \$250,000, which provided funds for the construction of Northeastern’s Westwood Family Practice facility located in Westwood, California. Although Northeastern subsequently appears to have utilized the HELP II funds appropriately and continues to make timely principal and interest payments, Northeastern encountered financial challenges in 2009, which ultimately led Northeastern to cease operations at its Westwood Family Practice location.

Though the Authority’s Loan and Security Agreement requires Northeastern to provide written notice and to seek written consent from the Authority prior to any action such as a facility closure, Northeastern failed to do so. Authority staff discovered the closure in August 2010 from a newspaper article.

Northeastern reports they are experiencing incremental financial improvement and that they intend to re-open their Westwood location as early as January of 2011. Northeastern advises however that their ability to re-open is dependent upon their success in recruiting physicians and support staff to support operations. According to Northeastern, the recruitment process is a difficult and protracted effort largely because of their location, but also because they temporarily place and train recruited staff at one of their other locations to ensure the staff, once placed, will thrive.

Staff conferred with legal counsel to identify legal remedies associated with the default and is now in the position to recommend the following approach to resolve the existing default, taking into account Northeastern’s intention to re-open the facility they closed.

1. Beginning November 1, 2010, Northeastern will be required to accelerate their debt service by increasing their monthly payments by 50% (from \$1,373 per month to \$2,060 per month) until April 1, 2011, effectively serving to accelerate their loan maturity date.

¹ The current outstanding principle balance is \$30,653.56

2. If at any time prior to April 1, 2011 the Westwood facility reopens, monthly payments will return to \$1,373.
3. Between now and April 1, 2011, Northeastern will be required to submit a written progress report every 90 days to the Authority which shall particularize their recruitment efforts and discuss their progress toward the successful resumption of services at their Westwood Family Practice office.
4. If Northeastern has failed to resume the provision of services at their Westwood facility by April 1, 2011, the Authority will revisit all remedies under the loan agreement, which may include immediate acceleration of the outstanding principal balance of the loan.
5. Northeastern's gross revenue pledge to the Authority will remain intact.

RECOMMENDATION

Staff recommends the Authority approve the foregoing approach to resolve Northeastern's default of its existing HELP II loan, subject to all the terms and conditions set forth in Resolution Number 2010-31.