

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

**Progress House, Inc. (“PH”)**

**Resolution Number HII-260**

**October 28, 2010**

**PURPOSE OF THE REQUEST**

Staff requests the Authority modify one of the security provisions of an existing HELP II loan originally approved by the Board for the benefit of PH on December 6, 2007. If approved by the Authority, staff will execute documentation to permit subordination of the gross revenue pledge, which will place the Authority in second position. The subordination will not change any other term of the loan, nor will it in any way alter the first lien position the Authority has on PH’s real property.

**BACKGROUND**

On December 6, 2007, the Authority authorized a HELP II loan (“Loan”) for PH for \$560,300. PH applied the loan proceeds to pay off three existing loans and to provide funds to renovate one of PH’s residential facilities located at 838 Beach Court Road, Coloma, El Dorado County. PH has timely made payments and the outstanding principal balance is approximately \$481,000. PH provided the Authority with an appraisal when the loan was originally approved (dated January 15, 2008) indicating the then fair market value of \$600,000. As a condition of the proposed subordination, staff is requiring an updated appraisal to ensure the loan does not exceed the Authority’s maximum loan to value ratio of 95%.

On September 17, 2010, PH notified Authority staff of their need to obtain a one-year \$500,000 line of credit to help them make it through an apparent protracted Medi-Cal reimbursement period. According to PH, some of their Medi-Cal reimbursements will take several months for the Department of Health Care Services to process and disburse notwithstanding the state’s recent enactment of a FY 2010/2011 budget.

The American River Bank (the “Bank”) approved PH’s request for a line of credit, but the Bank insists on a first lien position of PH’s gross revenues. The Bank currently provides PH with a \$200,000 operating line of credit secured by a second priority security interest in effectively all of PH’s assets. The Bank is not willing to advance additional funds on the same terms as it originally approved the credit line for PH. PH is requesting the Authority provide the Bank with a permanent first priority security interest in PH’s gross revenues by subordinating the Authority’s gross revenue pledge on the loan. If granted by the Authority (subject to an updated appraisal of PH’s real property to ensure the loan does not exceed a loan to value ratio of 95%), PH’s loan would continue to be secured by a first lien position on the above referenced real property.

Staff has reviewed recent financial statements from PH. The proforma debt service coverage ratios for FY 09 and FY 10 (draft audit) are .94x and 1.0x respectively, slightly below the HELP II target level of 1.10x.

Notwithstanding these less than ideal ratios, staff recommends approving the request for subordination so long as an updated appraisal on PH’s real property confirms there is more than enough value in the property to satisfy the outstanding principal balance of the loan (loan to value ratio not to exceed 95%). Macias Gini & O’Connell LLP, the Authority’s financial analyst, has reviewed all relevant financial documentation submitted by PH and advised of its concurrence with the Authority’s staff recommendation.

**RECOMMENDATION**

Staff recommends the Authority approve Resolution Number HII-260 to permit the subordination of the Authority’s gross revenue pledge for the HELP II loan previously approved for PH on December 6, 2007.