

# **ADVISORY LOAN INSURANCE COMMITTEE**

**March 14, 2024**



**Cal-Mortgage Loan Insurance Division  
Department of Health Care Access and Information**

2020 West El Camino Avenue, Suite 1231  
Sacramento, California, 95833  
916-319-8800



2020 West El Camino Avenue, Suite 800  
Sacramento, CA 95833  
hcai.ca.gov



**HCAI Director**

Elizabeth A.  
Landsberg

**Deputy Director**

Jeremy P. Marion

**NOTICE OF PUBLIC MEETING**

**CAL-MORTGAGE LOAN INSURANCE PROGRAM  
ADVISORY LOAN INSURANCE COMMITTEE (ALIC)**

**Date:**

**Thursday, March 14, 2024, 10:30 a.m.**

**Committee Members**

Jay Harris, Chair\*  
Derik Ghookasian,\*  
Vice Chair  
Soyla Reyna-Griffin\*  
Jonathon Andrus\*  
John Woodward\*  
Richard Tannahill\*  
Scott Coffin\*

*\*Attending virtually*

This meeting will be held by teleconference. Members of the Advisory Loan Insurance Committee (ALIC) and members of the public may fully participate from their own locations.

**Physical Meeting Location: 2020 W. El Camino Avenue, Suite 1237  
Sacramento, CA 95833**

**Teleconference meeting access:**

**[ALIC March 14, 2024 Meeting via Microsoft Teams](#)**

If you are unable to join the meeting via Microsoft Teams, the audio only can be accessed at the telephone number below.

**Call-in Only Telephone Number:**

(916) 535-0978

**Meeting number (access code):**

154 161 555#

**AGENDA**

**Item 1 Call to Order**

- Roll call of ALIC Members

*Jay Harris, Chair, ALIC Committee*

**Item 2 Public Comment Regarding Action Items on Today's Agenda**

*Jay Harris, Chair, ALIC Committee*

Item 3 **ALIC Chair and HCAI Executive Staff Remarks**

- *Jay Harris, Chair, ALIC Committee*
- *HCAI Director Elizabeth Landsberg*
- *HCAI Chief Deputy Director, Scott Christman*
- *Cal-Mortgage Deputy Director, J.P. Marion*

Item 4 **Approval of the Minutes of the October 11, 2023, Meeting – Action Item**  
*Jay Harris, Chair, ALIC Committee*

Item 5 **Cal-Mortgage Reports – Informational Item**

- Project Monitoring  
*Dean O'Brien, Cal-Mortgage Supervisor*

Mr. O'Brien will report on statistics about the existing portfolio of Cal-Mortgage borrowers.

- Pending Projects  
*Consuelo Hernandez, Cal-Mortgage Supervisor*

Ms. Hernandez will report on current or prospective borrower applications.

- Problem Project Report  
*J.P. Marion, Cal-Mortgage Deputy Director*

Mr. Marion will report on projects appearing on the Cal-Mortgage Problem Project Report.

- Distressed Hospital Loan Program and Small and Rural Hospital Relief Program Updates

Mr. Marion will report on the activities of the Distressed Hospital Loan Program and Small and Rural Hospital Relief Program.

Item 6 **Future Agenda Items/Announcements from Committee Members**  
*Jay Harris, Chair (or designee), ALIC Committee*

Item 7 **General Public Comment**  
*Jay Harris, Chair (or designee), ALIC Committee*

Item 8 **Adjourn Meeting**

*Jay Harris, Chair (or designee), ALIC Committee*

Agenda items may not be called in the order presented. This agenda is also posted on the Internet at: <https://hcai.ca.gov/public-meetings/>. To request any background materials prior to the meeting, please contact Joanna Luce at (916) 319-8828 or [Joanna.Luce@hcai.ca.gov](mailto:Joanna.Luce@hcai.ca.gov).

Pursuant to the Americans with Disabilities Act, individuals with disabilities may request a reasonable accommodation or modification to access and participate in the meeting. Reasonable accommodation requests may be directed at least five (5) working days in advance of this event to Joanna Luce at (916) 319-8828 or [Joanna.Luce@hcai.ca.gov](mailto:Joanna.Luce@hcai.ca.gov). HCAI will make every reasonable effort to fulfill the request.

If you have any questions or comments, you may contact Joanna Luce at (916) 319-8828 or by email at [Joanna.Luce@hcai.ca.gov](mailto:Joanna.Luce@hcai.ca.gov).

**Agenda Item 4 – Draft Minutes of the  
October 11, 2023 ALIC Meeting**



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Sacramento, CA 95833  
hcai.ca.gov



## **ADVISORY LOAN INSURANCE COMMITTEE MINUTES**

**October 11, 2023**

### **1. CALL TO ORDER**

Mr. Jay Harris, ALIC Chair, called to order the meeting of the Advisory Loan Insurance Committee (Committee) of the Cal-Mortgage Loan Insurance Program (Cal-Mortgage) of the Department of Health Care Access and information (HCAI) at 9:33 a.m.

### **COMMITTEE MEMBERS PRESENT**

Jay Harris, Chair, via teleconference  
Derik Ghookasian, Vice Chair, via teleconference  
Soyla Reyna-Griffin, Member, via teleconference  
John Woodward, Member, via teleconference  
Richard Tannahill, Member, via teleconference  
Scott Coffin, Member, via teleconference

### **COMMITTEE MEMBERS ABSENT**

Jonathon Andrus, Member

### **ADDITIONAL ATTENDEES**

Elizabeth Landsberg, HCAI, Director  
Jeremy (J.P.) Marion, HCAI, Cal-Mortgage, Deputy Director  
Consuelo Hernandez, HCAI, Cal-Mortgage, Supervisor  
Dean O'Brien, HCAI, Cal-Mortgage, Supervisor  
Geoff Trautman, HCAI, Staff Attorney  
Andia Farzaneh, HCAI Staff Attorney  
Dennis Lo, HCAI, Cal-Mortgage Account Manager  
Lauren Hadley, HCAI, Cal-Mortgage, Account Manager  
Arne Bracchi, HCAI, Cal-Mortgage, Account Manager  
Tom Wenas, HCAI, Cal-Mortgage, Account Manager  
Frank Perry, HCAI, Cal-Mortgage, Health Program Specialist  
Joanna Luce, HCAI, Executive Secretary  
Michael Scannell, HCAI, Office Technician  
Michael Surmeian, Ararat Home of Los Angeles, Inc., Board of Trustees  
Bob Taylor, Ararat Home of Los Angeles, Inc., Board of Trustees  
Adam Vanucci, Zeigler, Assistant Vice President  
Sarkis Garabedian, Zeigler, Managing Director  
Bill Hendrickson, Hendrickson Consulting, Principal

## **2. PUBLIC COMMENT REGARDING ACTION ITEMS ON TODAY'S AGENDA**

Before Mr. Harris called the meeting to order, Mr. J.P. Marion, HCAI, Cal-Mortgage Deputy Director asked that for purposes of documenting the minutes for this teleconference meeting, that any participants when speaking on the call, to first state their name, noting members of the public are exempt from this request. Mr. Marion also asked that for today's action items, the item be done through a roll-call vote. With that announcement, Mr. Marion turned the meeting over to Mr. Harris to preside over the meeting agenda.

Mr. Harris proceeded to perform a voice roll call of the Committee members present at today's meeting and then asked for public comments regarding the action items on today's agenda. No public comments were made.

## **3. ALIC CHAIR AND HCAI EXECUTIVE STAFF REMARKS**

- **ALIC Vice Chair**

Mr. Harris stated he did not have any preliminary comments for today's meeting and then called upon Ms. Elizabeth Landsberg, HCAI, Director for her opening remarks at today's meeting.

- **HCAI Director**

Ms. Landsberg began her remarks by stating that Monday, October 9th was Indigenous Peoples Day and acknowledged the HCAI offices in Sacramento and Los Angeles sit on lands stolen from the Miwok, Nisenan, Chumash, and the Gabrielino/Tongva people. Ms. Landsberg said that she is proud of the work HCAI is doing to recognize the needs of Native American populations including the work of Cal-Mortgage that reaches out to provide services to all of our medically underserved communities in California.

Ms. Landsberg gave a brief update regarding the current California Legislative Cycle and the deadlines that need to be met for the bills that will be sent to the Governor for signature. The Governor has until October 14th to decide whether to sign or veto the bills that reach his desk. Ms. Landsberg stated that HCAI is still watching many of its bills but pointed out that AB 242, which removes the sunset date on allowing critical access hospitals to continue to directly employ physicians was signed.

Ms. Landsberg then informed the Committee on workforce development HCAI has hired a new Deputy Director, Libby Abbott. Ms. Abbott comes to HCAI from the Clinton Health Access Initiative and has a lot of experience doing international workforce work. HCAI is very please to have Ms. Abbott join the HCAI team.

Ms. Landsberg said that HCAI has significant investments in California's workforce focusing on primary care and behavioral health and gave a brief description of the programs that HCAI continues to support with its investments.

Ms. Lansberg took a moment before the Committee to recognize and acknowledge the skilled work and deep commitment of Mr. Marion and the whole Cal-Mortgage team for their work on the Distressed Hospital Loan Program and the Small and Rural Hospital Relief Program and to thank them for their hard work and dedication.

At the conclusion of Ms. Landsberg's remarks there was a brief discussion with the Committee about workforce development.

- **Cal-Mortgage Deputy Director**

Mr. Marion began his remarks with telling the Committee the reason for being able to conduct today's meeting via teleconference is because since the last Committee meeting the Governor extended the previous bill that temporarily authorized public meetings to be conducted via teleconference until December 31, 2023. Additionally, the Governor signed SB544, which will provide this Committee the flexibility to continue meetings via teleconference after January 1, 2024, into the future.

Mr. Marion reported on the activities of Cal-Mortgage since the last meeting, stating that the program has been busy working with a few applicants for loan insurance, which will be discuss in more detail under the Pending Projects Report.

Mr. Marion then provided the Committee with an update of the Distressed Hospital Loan Program (DHLP), which is in collaboration with the California Health Facilities Financing Authority. Since the last Committee meeting all of the loan applications received were analyzed and the list of loan award determinations was finalized. The hospitals were notified on August 21 of whether or not they received an award. Mr. Marion then went into detail with how the loan awards were determined and the administration of the loans.

Mr. Marion then had a brief discussion with the Committee concerning the DHLP. At the conclusion of this discussion, Mr. Harris then moved on to the next agenda item.

#### **4. APPROVAL OF THE MINUTES OF THE JULY 13, 2023 MEETING**

A motion to approve the minutes as written was made by Mr. John Woodward. Mr. Scott Coffin seconded the motion. The motion passed, 6-0.

#### **5. LOAN INSURANCE APPLICATION REVIEW: ARARAT HOME OF LOS ANGELES, INC. (APPLICANT)**

*Dennis Lo, Account Manager*

Before the presentation of this loan application, Mr. Marion asked Mr. Derik Ghookasian if he would like to make a statement prior to presenting this



agenda item to the Committee. Mr. Ghookasian advised Mr. Harris he would like to recuse himself from voting on this project; which Mr. Harris accepted.

The Applicant is a 501(c)(3) corporation incorporated in 1949 that owns and operates a Continuing Care Retirement Center (CCRC) in Mission Hills, a skilled nursing facility in Eagle Rock, and a second CCRC in Glendale. The proposed insured loan of \$12,000,000 is to reimburse the Applicant for acquisition of its Ararat Gardens CCRC, which occurred in March 2023.

Mr. Marion introduced Dennis Lo, Account Manager for this Applicant to the Committee. Mr. Lo provided the Committee with a summary background of the Applicant and the project with his recommendation to approve the request for loan insurance before introducing the following representatives present on behalf of the Applicant:

Derik Ghookasian, Chief Executive Officer, Ararat Home of Los Angeles, Inc.  
Mr. Michael Surmeian, Board Member, Ararat Home of Los Angeles, Inc.  
Bob Taylor, Board Member, Ararat Home of Los Angeles, Inc.  
Adam Vanucci, Assistant Vice President, Zeigler  
Sarkis Garabedian, Managing Director, Zeigler  
Bill Hendrickson, Principal, Hendrickson Consulting

Before Mr. Ghookasian asked Mr. Michael Surmeian to make their project's opening remarks, for the record Mr. Ghookasian informed the Committee Mr. Bob Taylor, a current member of the board of trustees is also present at today's meeting. Mr. Ghookasian then thanked the Committee for allowing the Applicant to present their project, for a third time in Ararat's history.

Mr. Surmeian made brief opening remarks beginning with his personal background and relationship to the Applicant, and the history of the Applicant. Following Mr. Surmeian's opening remarks, a discussion of this loan application with the Committee and Applicant occurred. The following subjects related to the Applicant's project were discussed: Applicant's long history with Cal-Mortgage; executive management team; Applicant's citations and corrections; Phase I Environmental Study; operating expenses; personnel and staffing expenses; staffing challenges and SB 525 wage requirements; skilled nursing; admissions and occupancy improvements; Medi-Cal and Medi-Care patients; relationships with the area's hospitals; endowment fund investments; and capital improvements.

At the conclusion of this discussion, all questions were answered to the Committee's satisfaction Mr. Harris opened the discussion to the public for comment. No public comments were offered on the Applicant's loan application. Mr. Harris then called for a motion to vote on the loan application project. Mr. John Woodward made the motion to approve the application for loan insurance. Ms. Soyla Reyna-Griffin

seconded the motion. The Committee voted to approve the application. The motion passed, 5-0 with one abstention by Mr. Ghookasian.

There was a brief break in the meeting upon approval of the loan application.

## **6. DEPUTY DIRECTOR'S REPORT**

- **Project Monitoring – Dean O'Brien**

Mr. Harris then asked Mr. Marion to present the Deputy Director's Report. Mr. Marion shared a printed copy of the Project Monitoring Report for the individuals attending the meeting via video teleconference, and then introduced Mr. Dean O'Brien, HCAI, Cal-Mortgage Supervisor to present the Project Monitoring report to the Committee. Mr. O'Brien informed the Committee he did not have any significant updates from his last report. Mr. O'Brien said that the Cal-Mortgage account managers have been doing a good job keeping the lines of communications open with our borrowers that are lagging behind on their financial reporting. Saying further we are still seeing significant delays of the audited financials coming in due to staffing issues on the auditor's side and back-office staff. This has not changed in the last six months, hoping for a change in the next six months. We are watching this issue closely. Mr. O'Brien said we are seeing some softening in terms of the debt service coverage ratios and further stated we have some projects that are struggling. More of this point will be discussed when Mr. Marion presents the Problem Projects Report.

Mr. O'Brien reported the staff is getting out and visiting their projects, calling out Mr. Arne Bracchi, for completing three sight visits recently. By visiting our projects, it is a great way to generate new business and keep the lines of communications open and help the projects that seem to be struggling.

At the conclusion of Mr. O'Brien's report, the Committee did not have any questions for this report. Mr. Marion then introduced Ms. Consuelo Hernandez, HCAI, Cal-Mortgage Supervisor to present the Pending Projects Report.

- **Pending Projects – Consuelo Hernandez**

Mr. Marion then introduced Ms. Consuelo Hernandez, HCAI, Cal-Mortgage Supervisor to discuss the Pending Projects Report. Ms. Hernandez informed the Committee that since the last Committee meeting, we successfully closed the Odd Fellows Home of California on August 4, 2023. The account manager for this project is Lauren Hadley, HCAI, Account Manager.

Ms. Hernandez then stated the November Committee meeting will more than likely be canceled as will the December Committee meeting. Alexander Valley Healthcare is the next project likely to come before the ALIC. They are currently finalizing their application documents and we are expecting them to present their project to the Committee sometime early in 2024.

The Committee did not have any questions for Ms. Hernandez at the conclusion of her report. Mr. Harris then called upon Mr. Marion to present the Problem Projects Report.

- **Problem Project Report – J.P. Marion**

Mr. Marion discussed the borrowers that are experiencing financial difficulties and the action plan devised to address each borrower as well as additional borrowers that we are tracking on our Watch List, and potentially may be added to a future Problem Project Report. Mr. Marion then provided the Committee with additional updates on the following borrowers:

California Nevada Methodist Homes (CNMH): Mr. Marion said that CNMH is now a resolved default project and gave a brief history of their financial issues, bankruptcy case, and how CNMH resolved their default.

San Benito Health Care District (San Benito): Mr. Marion gave the Committee a brief update about this borrower's financial situation, bankruptcy case proceedings, entering into a Letter of Intent with American Advanced Management for purposes of a lease-to-own structure, and noted San Benito is a recipient of a Distressed Hospital Loan Program loan. Cal-Mortgage participates in weekly update calls with San Benito's bankruptcy counsel. At this time San Benito does not have any plans to miss any of their payments to their secured creditors.

Hill Country Community Clinic (Hill Country): Mr. Marion said Hill Country is a Federally Qualified Health Clinic located in Round Mountain, CA. Mr. Marion detailed Hill Country's financial challenges. Cal-Mortgage staff conducted a site visit and met with management. Management is considering several scenarios to resolve their financial issues, noting that we are in constant discussions with Hill Country, and we will keep the Committee up to date on their financial status.

There was a brief discussion with Mr. Marion and the Committee about the early warning signs of Hill Country's financial trouble.

Verdugo Mental Health: This borrower is a resolved default and Cal-Mortgage is collecting payments and noted we are receiving regular payments as outlined in their settlement agreement.

Jewish Home of San Francisco: Mr. Marion said this project is on our Watch List. He gave an update of this borrower and their struggles of financial liquidity. They hired Dr. Adrienne Green as the new CEO. Mr. Marion said himself, Mr. O'Brien, and Dennis Lo, HCAI, Account Manager conducted a site visit and met with Dr. Green and two of the board members to hear updates on their organization. Mr. Marion said after their site visit, we feel better about this borrower with the hopes of their improvement in occupancy numbers will translate to more financial stability for this borrower.

Asian Community Health Care Centers: Mr. Marion said this borrower is located in Sacramento, CA and has a similar situation to Jewish Home of San Francisco. They have hired a new CEO and once the new CEO is settled into their position, a site visit will be planned to meet with them.

At the conclusion of Mr. Marion's report, Mr. Harris asked Mr. Marion for an update on St. Rose Hospital, which Mr. Marion provided to the Committee.

**7. FUTURE AGENDA ITEMS/ANNOUNCEMENTS FROM COMMITTEE MEMBERS**

Mr. John Woodward asked Mr. Marion if a November meeting would be held. Mr. Marion said the November meeting would likely be canceled. The potential meeting dates for 2024 will be sent via email to the Committee members in the coming weeks.

Mr. Scott Coffin proposed that once the St. Rose Community Health Assessment that is currently being done in Alameda County is made public, the report be discussed at a future Committee meeting. Mr. Marion said he would make sure the report included on the agenda at a future Committee meeting.

**8. GENERAL PUBLIC COMMENT**

No public comments were made.

**9. ADJOURN**

Mr. Harris made a motion to adjourn the meeting and the meeting was adjourned at 10:53 a.m.

The Minutes of the above meeting were approved during the meeting of the Committee held on Date of Meeting.

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Jay Harris, Chair

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Joanna Luce, Executive Secretary

**Agenda Item 5a – Cal-Mortgage Reports  
Project Monitoring**

**Department of Health Care Access and Information  
Cal-Mortgage Loan Insurance Program**

**As of February 29, 2024**

**Summary of Monitoring  
Financial Statements Received  
Project Filing Status**

<b>Survey Date:</b>	<b>Nov 1, 2022</b>	<b>Mar 1, 2023</b>	<b>Apr 27, 2023</b>	<b>Jun 29, 2023</b>	<b>Sep 29, 2023</b>	<b>Feb 29, 2024</b>
Current	45	50	42	50	42	43
Behind 1 quarter	16	6	13	2	11	11
Behind 2 quarters	0	2	0	2	2	1
Behind 3 quarters	2	2	2	3	3	3
<b>Total:</b>	<b>63</b>	<b>60</b>	<b>57</b>	<b>57</b>	<b>58</b>	<b>58</b>

**Summary of Monitoring  
Debt Service Coverage Ratio  
Number of Projects that Exceed Required Ratio**

<b>Survey Date:</b>	<b>Nov 1, 2022</b>	<b>Mar 1, 2023</b>	<b>Apr 27, 2023</b>	<b>Jun 29, 2023</b>	<b>Sep 29, 2023</b>	<b>Feb 29, 2024</b>
DSCR at or greater than required:	42	40	41	46	42	43
DSCR less than required:	20	19	16	11	14	13
Problem Project:	1	1	0	0	1	1
<b>Total:</b>	<b>63</b>	<b>60</b>	<b>57</b>	<b>57</b>	<b>58</b>	<b>58</b>

**Summary of Monitoring  
Site Visits  
Number of Projects that are Current**

<b>Survey Date:</b>	<b>Nov 1, 2022</b>	<b>Mar 1, 2023</b>	<b>Apr 27, 2023</b>	<b>Jun 29, 2023</b>	<b>Sep 29, 2023</b>	<b>Feb 29, 2024</b>
Current:	2	4	11	8	13	25
Past Due:	61	56	46	49	45	33
<b>Total:</b>	<b>63</b>	<b>60</b>	<b>57</b>	<b>57</b>	<b>58</b>	<b>58</b>

**Agenda Item 5b – Cal-Mortgage Reports  
Pending Projects**

**Department of Health Care Access and Information (HCAI)  
Cal-Mortgage Loan Insurance Program  
As of March 1, 2024**

**Projects Insured - Fiscal 2023-2024**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Loan Amount</u>	<u>Loan Type</u>	<u>Rating</u>
Ararat Home of Los Angeles	Mission Hills	Multi- CCRC	\$10,915,000	New	--
Odd Fellows Home of California	Napa	Multi- CCRC	<u>\$67,065,000</u>	Refinance Plus	BBB
			\$67,065,000		

**Projects Insured - Fiscal 2022-2023**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Loan Amount</u>	<u>Loan Type</u>	<u>Rating</u>
St. Rose Hospital	Hayward	Hosp	\$24,500,000	Refinance	--
Carmel Valley Manor	Carmel	Multi-Others	\$36,035,000	New	BB+
O'Connor Woods	Stockton	Multi-Others	\$35,595,000	Refinance	BB+
Bethany Home Society of San Joaquin County	Ripon	Multi-Others	\$49,560,000	New	--
Community Medical Centers, Inc.	Lodi	Clinic- PC	\$26,040,000	New	BB-
Aldersly	San Rafael	Multi- CCRC	<u>\$61,030,000</u>	New	--
			\$232,760,000		

**Projects with Letters of Commitment**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
No Letters of Commitment Outstanding					

**Applications Before Advisory Loan Insurance Committee**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
No Applications Before Advisory Loan Insurance Committee					

**Pending Applications**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
La Maestra Community Health Centers	San Diego	Clinic-PC	\$19,300,000	New	
Alexander Valley Healthcare	Cloverdale	Clinic-PC	<u>\$38,000,000</u>	New	
			\$57,300,000		

**Pre - Applications**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
No Applicants in Pre-Application Phase					

**Discussions**

<u>Project Name</u>	<u>Location</u>	<u>Facility Type</u>	<u>Amount</u>	<u>Loan Type</u>	<u>Rating</u>
SAC Health	San Bernardino	Clinic-PC	\$45,000,000	New	
OLE Health	Fairfield	Clinic-PC	<u>\$15,000,000</u>	New	
			\$60,000,000		

Facility Type Abbreviations

ADHC-DD	Adult Day Health Care-Developmentally Disabled
CDRF	Chemical Dependency Recovery Facility
Clinic-PC	Clinic for Primary Care
GH-DD	Group Home for the Developmentally Disabled
GH-Mental Health	Group Home - Mental Health
Hosp	General Acute Care Hospital
Hosp-Dist.	Acute Care Hospital - Healthcare District
Multi-CCRC	Multi-level Facility - Entrance Fee Continuing Care Retirement Community
Multi-Others	Multi-level Facility - Multiple Levels of Care, Month-to-Month Rental Community
SNF	Skilled Nursing Facility



**Agenda Item 5c – Cal-Mortgage Reports  
Problem Projects Report**

Department of Health Care Access and Information  
Cal-Mortgage Loan Insurance Division

# **Problem Projects Report**

**February 2024**

Distribution: Elizabeth A. Landsberg, Director  
Scott Christman, Chief Deputy Director  
J. P. Marion, Deputy Director, Cal-Mortgage  
Advisory Loan Insurance Committee Members

**Problem Projects Report - Update for February 2024**

Facility Name	Location	Type	Risk Rating as of 2/1/24	Current Obligation (Millions)	Percent In Debt Reserve Fund <sup>1</sup>	Payment Status?	Technical Default? (or other issues)	HFCLIF <sup>2</sup> Payment Likelihood? <sup>3</sup>	Change Since Last Report	Page
<b>I. <u>HFCLIF Payments Expected</u></b>										
<b>II. <u>Ongoing HFCLIF Payments</u></b>										
None										
<b>III. <u>Financial Performance Problems</u></b>										
San Benito Health Care District	Hollister	Hosp - District	C	\$ 9.8	100% (6-Month)	Current	Liquidity, Ratio Default	Low - March '24	Dec. YTD (6 mo.) profit of \$6,929,729 and 51 DCOH. The District filed for Chapter 9 on May 23, 2023. Letter of Intent w/AAM signed August 2023. Evaluating 3 other potential proposals.	1
Hill Country Community Clinic	Round Mountain /Redding	FQHC	C	\$ 3.1	74%	Not Current	Liquidity, Ratio Default	Moderate - May '24	The Corporation made Nov and Dec payments and partially replenished the DSRF. The Corporation is negotiating to sell its Redding clinic site. Meanwhile, the Corporation requested loan forbearance for six months.	3
<b>IV. <u>Defaulted Projects: Pending Asset Sales</u></b>										
None										
<b>V. <u>Resolved Defaulted Projects</u></b>										
Verdugo Mental Health	Glendale	Clinic-MH							Last payment received on February 21, 2024. Current balance is \$3,847,013.33.	6
Lake Merrit - Cal-Nevada/Pacifica	Oakland	CCRC							Last payment received on February 6, 2024. Current balance is \$14,349,845.99	7

<sup>1</sup> The insured project's Debt Service Reserve Fund (DSRF)

<sup>2</sup> Health Facility Construction Loan Insurance Fund

<sup>3</sup> Likelihood means probability or possibility of using HFCLIF for next payment.

Department of Health Care Access and Information  
Cal-Mortgage Loan Insurance Division  
**Problem Project Monthly Report – February 2024**

### **III. Financial Performance Problems**

**Project:** San Benito Health Care District

**Number:** 1076

**Description:**

San Benito Health Care District (District) operates the 25-bed Hazel Hawkins Memorial Hospital, four rural health clinics, two community health clinics, a distinct part skilled nursing facility, four satellite lab/draw stations, a home health agency in Hollister, and a rural health clinic in San Juan Bautista, California. In March 2013, HCAI insured a \$24.9M bond issue for the refunding of \$16M in outstanding bond debt, reimbursing the District \$10M for construction costs for a Women's Center, and \$2.4M toward the cost of issuance (2013 Bonds). The District refinanced the 2013 Bonds on February 11, 2021 (2021 Bonds) and achieved a net present value (NPV) savings of 10.42 percent, or \$1.7M. The refinance provided annual cash flow savings of approximately \$380,000. In addition, the refinance allowed the outstanding balance to decline from \$16.48M to \$12.57M. The 2021 Bonds have a current outstanding balance of \$9.81M with a final maturity on March 1, 2029.

**Background:**

Between 2014 and 2020, the District's financial condition struggled due to a decline in census and ever-increasing expenses. In 2018, the District began the application process to convert to a Critical Access Hospital (CAH) and the Centers for Medicare and Medicaid Services (CMS) approved its application effective March 26, 2020. As part of the reclassification to a CAH, the District decreased its licensed beds from 62 to 25. Between April 2020 and June 2022, the District's financial condition improved due to the increased Medicare rates as part of the CAH reclassification, improved census related to COVID, and supplemental COVID funding.

In the third quarter of calendar year 2022, the District began experiencing liquidity issues due to two factors. First, CMS indicated that the District was overpaid during the FYE 2022 by \$5.2M. A one-year repayment plan was established in the amount of \$441,036 per month. In addition, CMS indicated that an additional \$5.2M was to be reduced from future payments in FYE 2023, thus the District's inpatient rates were reduced by 20 percent and outpatient rates were reduced by 13 percent. The District was able to negotiate the one-year CMS repayment plan to a five-year repayment plan.

Second, the District ended its commercial provider agreement with Anthem Blue Cross (Anthem) on August 10, 2022. Anthem deactivated payments to the District on the commercial provider agreement, and inadvertently deactivated payments to the District on its Medi-Cal provider agreement. Anthem identified that it may take 45 days to correct the accidental deactivation of the payments for the Medi-Cal provider agreement. The District identified that approximately \$4M in claims were delayed due to this payment processing issue with Anthem. The District eventually reached a new commercial provider agreement with Anthem covering the 2023 calendar year. The outstanding Anthem Medi-Cal receivables were subsequently processed and paid.

The District initiated an aggressive cost savings plan to address its immediate cash-flow needs, while the District explored sources to provide temporary liquidity and collected on its receivables. The San Benito County Board of Supervisors agreed to advance the District its annual property tax revenue normally paid in April; the District received \$2.2M of property tax revenue in December 2022. In January 2023, the District obtained a \$3.09M loan from the California Health Facilities Financing Authority's Nondesignated Public Hospital Bridge Loan Program II to provide additional liquidity. The District receives over \$13M in supplemental funding annually; however, the majority of the funding is normally not received until months later and sometimes in the following fiscal year. The District worked with various agencies to receive its supplemental payments in advance, thus improving its liquidity.

**Current Situation: (As of February 14, 2024)**

**Risk Rating: C**

On May 22, 2023, the District’s Board of Directors authorized the filing of a Chapter 9 bankruptcy petition and adopting a pendency plan outlining a strategy to proceed forward. The District officially filed for Chapter 9 on May 23, 2023.

The District engaged B Riley Advisory Services to begin the search for a strategic partner to help ensure the long-term viability of the District. The District has received interest from several potential partners or buyers. On August 3, 2023, the District received a letter of intent with American Advanced Management, Inc. proposing a lease-to-own transaction structure. On October 26, 2023, the District received a second letter of intent with the County of San Benito and Salinas Valley Health proposing a Joint Powers Authority with Salinas Valley Health managing the operations of the District. On January 2, 2023, the District received a third letter of intent with Insight Foundation of America proposing a purchase of the District’s assets for between \$59M and \$65M. The District is still considering all three offers. In addition, the District continues to have discussions with other potential partners or buyers and is open to other offers or structures.

The District received a \$10 million loan award from the Distressed Hospital Loan Program. Management and their counsel are reviewing the transaction documents and going through the process of accepting that loan award.

In December the District defended itself in a trial due to Unions’ claiming that the District does not meet the criteria to file for bankruptcy protection, which lead to wage and benefit cost cutting measures. The Judge’s ruling on the trial was expected in mid-January, but the ruling date was extended.

The following table shows historical results for a number of key financial statistics:

Statement Date (6/30 FYE)	12/31/2023	6/30/2023	6/30/2022	6/30/2021	6/30/2020
Months Covered	6	12	12	12	12
Audit Method	Internal	Unqualified	Unqualified	Unqualified	Unqualified
Cash & Investments	\$19,141,516	\$13,413,099	\$14,442,002	\$18,508,626	\$21,900,654
Net Worth	\$30,449,595	\$23,542,007	\$23,197,870	\$20,527,771	\$20,233,144
Net Revenue	\$76,397,326	\$161,907,260	\$149,021,950	\$140,543,291	\$119,478,898
EBITDA	\$9,087,456	\$4,625,783	\$6,928,468	\$4,988,398	\$301,838
Net Income	\$6,929,729	\$344,137	\$2,670,099	\$294,627	(\$4,652,596)
Debt Service Coverage Ratio	8.95	5.34	3.09	2.11	(0.27)
Current Ratio	2.03	1.56	1.50	1.75	2.02
Days Cash on Hand	51	32	37	49	65

For the 6-month period ended December 31, 2023, the District had a net income of \$6,929,729 compared to a budgeted net income of \$1,481,465. This resulted in a debt service coverage ratio of positive 8.95. The District had \$19.1M in cash, equal to 51 days cash on hand.

**Assessment:**

Profitability:	12/31/2023 (6 mo.): \$6,929,729
Liquidity:	Days Cash on Hand: 51
Debt Service Reserve Fund:	100% funded: \$936,400
Debt Service Payments:	Current
HFCLIF:	3/1/2024 (P&I): low probability
CEO:	Mary Casillas
CFO:	Mark Robinson

**Account Manager:** Lauren Hadley

**Supervisor:** Dean O’Brien

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### III. Financial Performance Problems

**Project:** Hill Country Community Clinic

**Number:** 1034

**Description:**

Hill Country Community Clinic (Corporation) is a California nonprofit public benefit corporation under Section 501(c)(3) of the Internal Revenue Code. The Corporation owns and operates a healthcare facility in Round Mountain, Shasta County, to provide primary care and health education services to the Northeast portion of the County. In addition, the Corporation also operates a clinic and homeless shelter for transitional youth in Redding, Shasta County, namely Center of Hope (COH), to provide primary care, mental health, and chiropractic service. In December 2004, the Corporation earned a Section 330 Federally Qualified Health Center (FQHC) designation.

In October 2007, the Department insured a bond series in the amount of \$5,250,000 for the Corporation (2007 Bonds). The 2007 Bonds were used to finance an expansion project that added a 12,500-square-foot space onto the Corporation's existing Round Mountain facility for housing six new medical exam rooms, three dental operatories, a mental health suite, a teen activity center, a new helicopter landing pad, and storage facilities.

The 2007 Bonds were refinanced in November 2016 in an amount of \$4,420,000 (2016 Bonds) with the Department. The outstanding balance of the 2016 Bonds is \$3,235,000.

On November 6, 2019, the Department consented to an additional \$10 million indebtedness acquired by the Corporation from Nonprofit Finance Fund and Dignity Health Partners to structure a New Market Tax Credit transaction that would finance a construction project, namely COH, which includes a clinic and a supportive housing for transitional aged youth in Redding. Construction of the COH was completed in July 2021. Commencing December 15, 2021, quarterly principal and interest payments of \$194,325 are payable on the 15th day of March, June, September, and December with all unpaid principal and interest due in December 2026.

**Background:**

The Corporation's operating income started dropping since the COVID-19 pandemic in 2020. In 2022, the Corporation's financial performance got worse and recorded \$1.5 million net loss. The Corporation's cash depleted quickly from \$1.7 million in 2021 to less than \$500k in 2022 as a result of poor operating results and construction of the COH. Based on the past 24-month financial performance ended December 31, 2022, the auditor, FORVIS LLC, opined in the audit report for Fiscal Year 2020 that due to decreased working capital, coupled with the additional debt service payments required to be made in relation to the COH project, and the impact of the COVID-19 pandemic raises substantial doubt about the Corporation's ability to continue as a going concern.

**Current Situation: (As of February 15, 2024)**

**Risk Rating: C**

The Trustee confirmed that the Corporation made two monthly bond payments (November and December 2023) and partially replenished the withdrawn amount from the Debt Service Reserve Fund.

The Corporation reportedly entered into a non-binding agreement with Shasta Community Health Center (SCHC) to assume the ownership and indebtedness of the Center of Hope, the Corporation's clinic at Redding that was financed by (Nonprofit Finance Fund) NFF with New Market Tax Credit (NMTC) program. According to the latest offer from NFF and the Corporation's projection, the Corporation expects to extinguish the \$9.2 million NMTC loan (after principal impairment and interest forgiveness of \$1.2 million by NFF), pay off \$3.6 million other debts and fees, and receive \$2.2 million cash for operation. The Corporation is working on finalizing a term sheet with SCHC to conclude the

deal and expects to receive an \$850K as a deposit thereof from SCHC in February. The remaining balance of cash will be received at closing which is anticipated to be the first week of April.

The Corporation submitted a five-year financial projection based on successful sale of Center of Hope. Based on the projection, the Corporation will maintain a liquidity of 25 Days Cash On Hand (DCOH) at FYE 2024, and gradually improve their operations to achieve 80 DCOH by FYE 2027.

The Corporation is requesting loan forbearance from HCAI for six months while they are working on the above deal. The upcoming payment to bondholders in an amount of \$54,206.25 will be due on May 1, 2024, while the Debt Service Reserve Fund outstanding balance is currently at \$110,298.62. The Debt Service Reserve Fund is sufficient to meet debt service payment to bondholders in May. Cal-Mortgage informed the Trustee to refrain from escalating debt collection activities until July if the Corporation fails to make monthly bond payments.

The complete set of internal financials for fiscal year 2023 are still underway. The Corporation provided the Income Statement for FY 2023, which showed a \$3.6 million operating loss during the year. The Corporation officially replaced the previous CFO with Phillip Nowak, who is newly hired for expediting the reporting process and reviewing the revenue cycle. Mr. Nowak has over a decade of working experience at FQHCs in Northern California and Reno, Nevada as a CFO and COO. The Corporation is also being required by their auditor to put up \$100k to settle the service fee for audit filing of fiscal year 2020 and as a retainer for ongoing service for audit filing of fiscal year 2021 and 2022.

Cal-Mortgage staff made a site visit at the Corporation on August 18 and took a tour of the COH, which opened in July 2021 as the Corporation's flagship clinic site located in Redding. During the meeting with the CEO and CFO at the COH, the CFO expressed that the Corporation is facing serious liquidity problem due to changes of reimbursement requirements from the County, broken revenue cycle; physician and medical staff turnover; and dropping utilization. The CEO also admitted the COH was overbuilt for current demand for services and has caused a huge financial burden, which coincided with the COVID-19 pandemic that brought adverse impact to the Corporation's operation.

The following table shows key financial statistics of the Corporation.

Dollars in Thousand	Audited (Fiscal Year Ending December 31)			Internal	
	2018	2019	2020	2021	2022
<b>Cash &amp; Equivalents</b>	2,180	1,398	1,864	1,765	486
<b>Total Assets</b>	11,550	45,091	51,592	49,514	48,370
<b>Total Liabilities</b>	6,937	38,409	44,139	39,643	42,483
<b>Net Worth</b>	4,613	6,682	7,453	9,871	5,887
<b>Net Income</b>	1,895	2,069	1,186	820	(1,509)
<b>Debt Service Coverage Ratio</b>	2.53	1.28	2.66	1.90	0.88
<b>Days Cash on Hand</b>	64.34	37.31	41.91	34.66	8.47
<b>Current Ratio</b>	1.92	1.08	0.86	1.37	0.91

**Assessment:**

Profitability:	12/31/2023 (12 mo.): -\$3,655,806
Liquidity:	Days Cash on Hand: 8.47
Debt Service Reserve Fund:	78% funded: \$110,298.62
Debt Service Payments:	Not Current
CEO:	Jo Campbell
CFO:	Phillip Nowak

**Account Manager:** Dennis Lo

**Supervisor:** Dean O'Brien



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**V. Resolved Defaulted Projects**

**Project:** Verdugo Mental Health

**Number:** 0973

**Description:**

The Las Candelas Nonprofit Group, in conjunction with the Glendale Hospital, established the Verdugo Mental Health Center (Clinic) in 1957. Services focused on abused and emotionally disturbed children, seriously mentally ill adults, and those recovering from substance abuse and other addictions. In December 1993, the Department insured a loan to purchase, renovate, and equip an outpatient/administrative facility. This loan was refinanced in April 2005 for the balance of \$810,000. In April 2006, the Department approved a \$5,505,000 loan to construct a 14,740 square foot outpatient clinic. The clinic is a two-story building with partial subterranean parking, joined with existing retrofitted, 4281 square foot clinic.

**Background:**

Verdugo filed Chapter 7 bankruptcy due to a special education local plan area liability of \$566,000, growing net losses resulting from cuts in reimbursements for patient services, and declining fundraising. On December 9, 2010, the Department issued a Declaration of Default and Notice to Cure for \$5,220,000.

All bonds were redeemed by the trustee on April 18, 2011, using funds drawn from the HFCLIF and the balance of the trustee accounts, which was \$5,732,382.18. A \$5,000,000 bankruptcy court order approved, HCAI financed sale to DiDi Hirsch Psychiatric (DiDi Hirsch) closed on May 13, 2011.

**Current Situation:** (as of February 21, 2024)

**Risk Rating:** None

The February 2024 amortized payment of \$21,080.20 was made on February 21, 2024. The current outstanding balance is \$3,847,013.33. The 2022 audited financial statements were received on March 14, 2023.

**Assessment:**

Profitability: (DiDi Hirsch)	\$1,070,602 (6/30/22 Audit)
Liquidity: (DiDi Hirsch)	\$3,293,746 cash (6/30/22 Audit)
DSCR: (DiDi Hirsch)	1.42 (6/30/22 Audit)
Loan Balance:	\$3,847,013.33
Payments:	Current (2/21/2024)
Final Maturity:	6/1/2044
Interest Rate:	3%
Payment Terms:	\$21,080.20 monthly until maturity on 6/1/2044

**CEO:** Jonathan Goldfinger, MD

**CFO:** Howard Goldman

**Account Manager:** Dennis Lo

**Supervisor:** Dean O'Brien

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## **II. Financial Performance Problems**

**Project:** California Nevada Methodist Homes

**Numbers:** 1018, 1053

### **Description:**

California Nevada Methodist Homes (Corporation) was founded over 60 years ago. It operates two continuing care retirement communities (CCRCs)—Forest Hill Manor (FHM) in Pacific Grove and Lake Park Retirement Residence (LPRR) in Oakland.

### **Background:**

On October 1, 2015, the Department of Health Care Access and Information (Department) insured Revenue Bonds Series 2015 (Bonds) for the Corporation in the amount of \$32,920,000. The Bonds were used to refinance the Department insured 2006 bonds and fund \$6.3 million in capital improvements.

The Corporation has had several financial setbacks dating back to 2007, which contributed to its net losses since Fiscal Year End (FYE) 2009. Approximately \$27.5 million of the \$42.3 million 2006 bonds were used for the expansion of FHM. Construction was scheduled to be completed in late 2007, but construction was delayed by 16 months. The construction delays caused the opening of FHM to be set back until March 2009, right at the beginning of the recession. By March 2009, Independent Living (IL) cottage deposits had declined, and the Corporation has not been able to increase occupancy at FHM. The purpose of the 2015 Bonds was to provide interest rate savings, along with an additional \$6.3 million for renovations and upgrades to the Corporation's facilities. The renovations were believed to be necessary to improve occupancy and increase the marketability of vacant IL units. The units have not sold at the pace that was projected in the feasibility study done by Bill Hendrickson at the time of the bond closing.

On March 16, 2021, the Corporation filed a voluntary petition commencing Chapter 11 for relief under the Bankruptcy Code continuing in possession of its property and operation of its businesses as debtor-in-possession (DIP). The Corporation missed the monthly debt service payments from February 2020 through December 2022. On December 6, 2022, the sale of the Corporation to Pacifica Companies LLC (Pacifica) was finalized. The Department elected to accelerate the bonds per section 7.2 of the Indenture and the bonds were paid in full and redeemed on March 3, 2023. The Plan of Liquidation was approved during the court hearing on June 30, 2023, and became effective on July 5, 2023. The Department received a wire of \$2,358,613.01 on July 6, 2023. The wire was the amount due to the Department as part of the liquidation plan.

On September 8, 2023, the Corporation entered a final decree to close the Chapter 11 case with the Bankruptcy Court. The final decree was approved by the Court on October 4, 2023.

### **Current Situation: (as of February 16, 2024)**

**Risk Rating:** N/A

There are some unresolved disputes over administrative expense claims still to be resolved, but it is anticipated that expenses will be less than the \$750,000 being held in the reserve account. Any money left after all expenses have been paid will be returned to the Department.

Under the amended Purchase Sale Agreement, the Department and Pacifica have negotiated a workout plan that involved a carryback secured note (Note) with Pacifica dba Lake Merritt Senior Living LLC as the obligor. The Note is secured by a Deed of Trust recorded against LPRR. The Note is for \$15 million and amortized over 240 months, but payable in full on or before month 120. Interest is 3 percent, and a \$3 million loan forgiveness will be issued upon payoff. Pacifica has made the monthly payment of \$83,189.64 from January 2023 to February 2024. The current outstanding balance is \$14,349,845.99.

**Assessment:**

Pacifica CEO:  
Pacifica Counsel:

Deepak Israni  
Thomas P. Sayer

Health Facility Construction Financing Officer: Consuelo Hernandez