

# Distressed Hospital Loan Program

Loan Evaluation Criteria Webinar

May 23, 2023

# About Us

## Presenters:

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California Health Facilities Financing Authority  
(CHFFA)

# Purpose of Today's Webinar

- Distressed Hospital Loan Program background
- Provide an overview of the loan application evaluation methodology
- Obtain stakeholder feedback on this evaluation methodology
- Informational webinar on how to apply once the loan applications are available in June.

# Distressed Hospital Loan Program Background

- Provide loans to not-for-profit and public hospitals in significant financial distress (not integrated in a system of more than two hospitals) or to governmental entities representing a closed hospital to prevent closure or facilitate reopening of a closed hospital.
- HCAI & CHFFA partnering to administer the program
- Loan terms:
  - Zero Interest
  - 72-month maturity, with 18-month grace period before repayment
  - Medi-Cal revenues secure loan repayment
- \$150 million one-time funding available
- Program will be focused on hospitals at significant risk of financial failure with a viable turnaround plan.
- Interested hospitals will need to apply through CHFFA.

# Evaluation Methodology

Four primary areas of focus when evaluating loan applications:



Liquidity



Profit/Loss Analysis



Turnaround Plan



Community Need

# Criteria #1 – Liquidity

## Criteria 1.1: Days Cash on Hand

Days Cash on Hand

Is the hospital currently struggling with liquidity and in risk of running out of working capital to maintain operations, sustain services, or pay employees?

Current Ratio

More Points:

30-days or less

31 to 45-days

46 to 60-days

61 to 75-days

76 to 90 days


Above 90-days

Fewer Points:




Access to Working Capital

# Criteria #1 – Liquidity

Days Cash on Hand	Criteria 1.2: Current Ratio	
Current Ratio	Is the hospital able to pay its short-term obligations?	
Access to Working Capital	More Points:  Fewer Points:	Less than 1.0 1.0 to 1.25 1.26 to 1.5 Higher than 1.5

# Criteria #1 – Liquidity

Days Cash on Hand	<b>Criteria 1.3: Access to Working Capital</b>
Current Ratio	The hospital has attempted to secure lines of credit or other working capital and has been turned down or only offered terms that are not economically viable.
Access to Working Capital	<p>More Points: Applicant denied alternatives</p>  <p>Fewer Points: Applicant has access to an un-utilized working capital loan or has not attempted to obtain one</p>



# Criteria #2 – Profit/Loss Analysis

Operating Margin

## Criteria 2.1: Operating Margin

Is the hospital experiencing operating or net losses? Operating margin has been negative for the last audit and the current year-to-date financial statements (excluding one-time pandemic related funding).

Impact of Loss to Liquidity

More Points:

Both periods negative



One period negative and one period positive

Fewer Points:

Both period positive

# Criteria #2 – Profit/Loss Analysis

## Criteria 2.2: Impact of Operating Loss to Liquidity

Operating Margin

Net Cash Runway = Cash Balance ÷ Monthly Average Operating Loss (excluding depreciation and non-cash expenses).

Impact of Loss to Liquidity

More Points:



Fewer Points:

6 months or less

7 to 12 months

13 to 18 months

19 to 24 months

25 months or higher

No operating loss

# Criteria #3 – Turnaround Plan

- Section 129383 (c)(1) Before receiving state assistance under this program, an eligible hospital shall submit a plan to the authority, which it shall share with the department, with projections detailing the uses of the proposed loan and strategies proposed by the hospital's governing body to regain financial viability and continue to operate.

(c)(2) Before issuing a loan under this chapter, the department shall review the plan submitted by an eligible hospital and make a determination that the plan is viable and there is a reasonable likelihood that the hospital will be able to regain financial viability and continue to operate as a hospital. The department shall not issue a loan award if the department is unable to make this determination.

# Criteria #3 – Turnaround Plan

Turnaround Plan Summary:

- 24-month cash-flow projection
- Narrative describing actions being taken by leadership
- Projections show how loan will be utilized
- Description of how actions will affect various revenue and expense line items

Does the hospital's 24-month projection plan demonstrate the strategy implementation will result in financial stability?

# Criteria #3 – Turnaround Plan

More Points:



Plan demonstrates a return to financial stability (no longer burning cash) with no change to lines of services and hospital begins making payments on the DHLPP loan.

Plan demonstrates a return to financial stability with limited change to lines of services and hospital begins making payments on the DHLPP loan.

Plan demonstrates a return to financial stability with major change to lines of services and hospital begins making payments on the DHLPP loan.

Plan demonstrates the hospital has engaged professional consultants to solicit a sale, merger or partnership that will return the hospital to financial stability.

Fewer Points:

Plan demonstrates the hospital will need to engage professional consultants to solicit a sale, merger or partnership or Plan demonstrates that the loan will extend the runway but does not illustrate a feasible path to financial stability.

# Flash Poll for Hospital Stakeholders

- Keeping in mind your specific needs for:
  - Turnaround plan development time
  - Board meeting timing for necessary approvals/resolutions to take on additional debt
  - Any public meeting timeline requirements

**Assuming the Loan Application goes live in the first week in June, how long does your organization need to prepare and submit an application so CHFFA and HCAI can establish a submission deadline?**

# Criteria #4 – Community Need

Distance to nearest hospital

Criteria 4.1: Distance to nearest alternative hospital

Service Offerings

What are the access to care impacts for the provider network and service offerings in the community if the hospital were to close?

Service Area Designation

More Points:

Nearest hospital is greater than 15 miles or 30 minutes driving time



Fewer Points:

Multiple alternatives offering similar services nearby

Payor Mix

# Criteria #4 – Community Need

Distance to nearest hospital

Criteria 4.2: Hospital planning to eliminate needed lines of service in its community

Service Offerings

What services are being eliminated and what is the alternate plan for providing services?

Service Area Designation

More Points:



The hospital will not eliminate lines of services in its community.

Fewer Points:

The hospital is planning to eliminate needed lines of services in its community.

Payor Mix



# Criteria #4 – Community Need

Distance to nearest hospital	<b>Criteria 4.3: Service Area Designation</b>
Service Offerings	The hospital is located in a medically underserved area (MUA) or a medically underserved population (MUP).
<b>Service Area Designation</b>	<p><b>More Points:</b> The Hospital's primary service area is designated as both a MUA and a MUP</p> <p><b>Fewer Points:</b> The Hospital's primary service area is not designated as a MUA or a MUP</p>
Payor Mix	



# Criteria #4 – Community Need

Distance to nearest hospital	<h2>Criteria 4.4: Payor Mix</h2>	
Service Offerings	The hospital's payor mix is predominantly Medi-Cal, Medicare, and uninsured/discount or charity care.	
Service Area Designation	More Points:	Greater payor mix of Medi-Cal, Medicare and uninsured/discount or charity care.
Payor Mix	Fewer Points:	Lower payor mix of Medi-Cal, Medicare, and uninsured/discount or charity care.



# Other Factors

- The hospital is in technical or payment default with long-term debt covenants and lender is implementing remedies of default actions.
- Has the hospital already pledged Medi-Cal revenues to creditors, therefore the Medi-Cal revenue collateral for the Distressed Hospital Loan Program will be subordinate to the existing liens?

# Timeline

- We distributed an “Interest Survey” on May 16th to the CEOs of hospitals identified by the eligible hospital types in AB112 statutes.
  - This will help us gauge loan demand on the program and determine loan sizing.
- CHFFA Board meeting to approve authorizing loan administration, May 25<sup>th</sup>
- Loan applications go live for submittal, early June
- Informational webinar about the Program to interested applicants, early June

# Questions, Comments, & Feedback

- At this time, you can raise your hand for questions, comments, or feedback and we will unlock your microphone.
- We are expecting a lot of comments and we may not have time to get to everyone, but please utilize the link in the chat to take you to a Microsoft Forms page that will collect your input.
- The Microsoft Forms page will be open through close of business Wednesday May 24<sup>th</sup>. We will respond to hospital specific questions directly and will address broader themed questions in our application webinar or frequently asked questions page on our website.

# Contact Us

- Preferred method for questions or comments,  
Microsoft Forms:

<https://forms.office.com/g/7HKKe7sSpd>

Department of Health Care Access and Information

Email: [dhlp@hcai.ca.gov](mailto:dhlp@hcai.ca.gov)

<https://hcai.ca.gov/construction-finance/distressed-hospital-loan-program/>

California Health Facilities Financing Authority

Email: [CHFFA@treasurer.ca.gov](mailto:CHFFA@treasurer.ca.gov)

<https://www.treasurer.ca.gov/chffa/programs/dhlp.asp>