CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HEALTHCARE EXPANSION LOAN PROGRAM II

2019 ANNUAL REPORT

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Overview

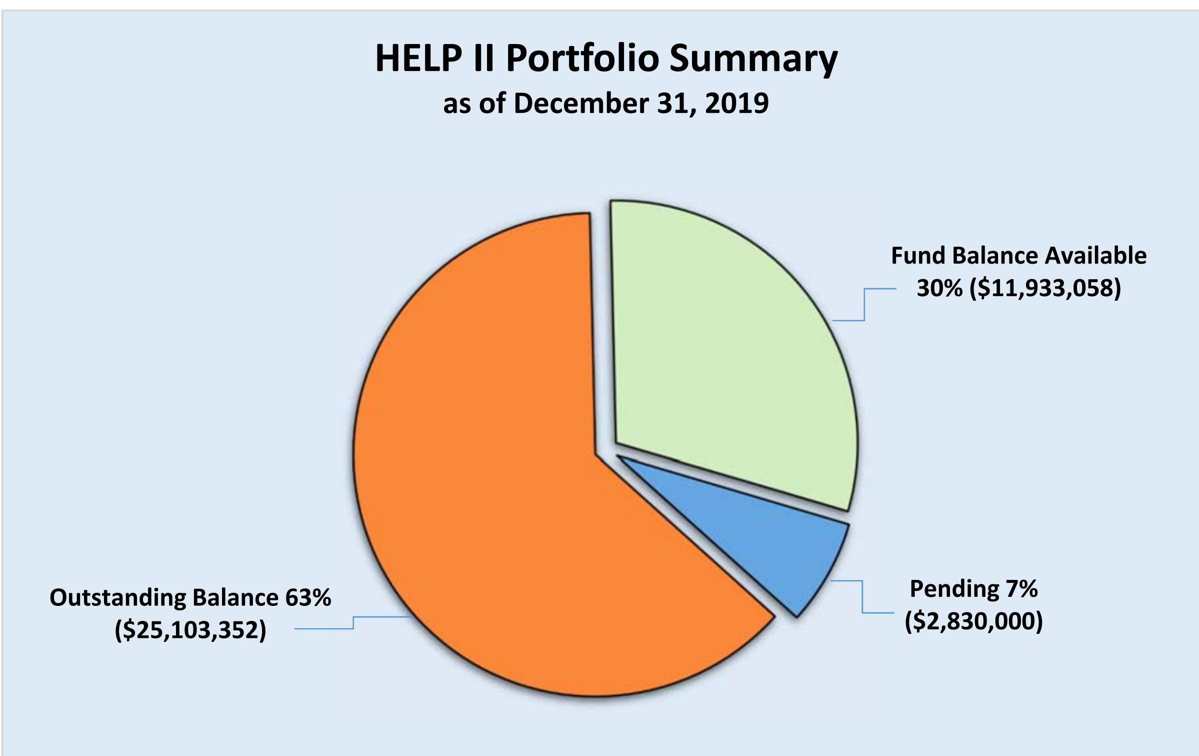
The Healthcare Expansion Loan Program II (HELP II) was designed to provide small and rural health facilities with financing for capital needs through low cost loans. HELP II became operational in 1995, having superseded the HELP Program that began in 1988.

Through this program, low interest rate loans are available for the purchase of real property, construction/renovation, purchase of equipment and furnishings, and refinancing of existing debt to those qualifying as a participating health facility. Other eligibility requirements include, but are not limited to, evidence of fiscal soundness, ability to meet terms of the loan, and no more than $30 million in annual gross revenues (district hospitals and rural health facilities are exempt from this requirement).

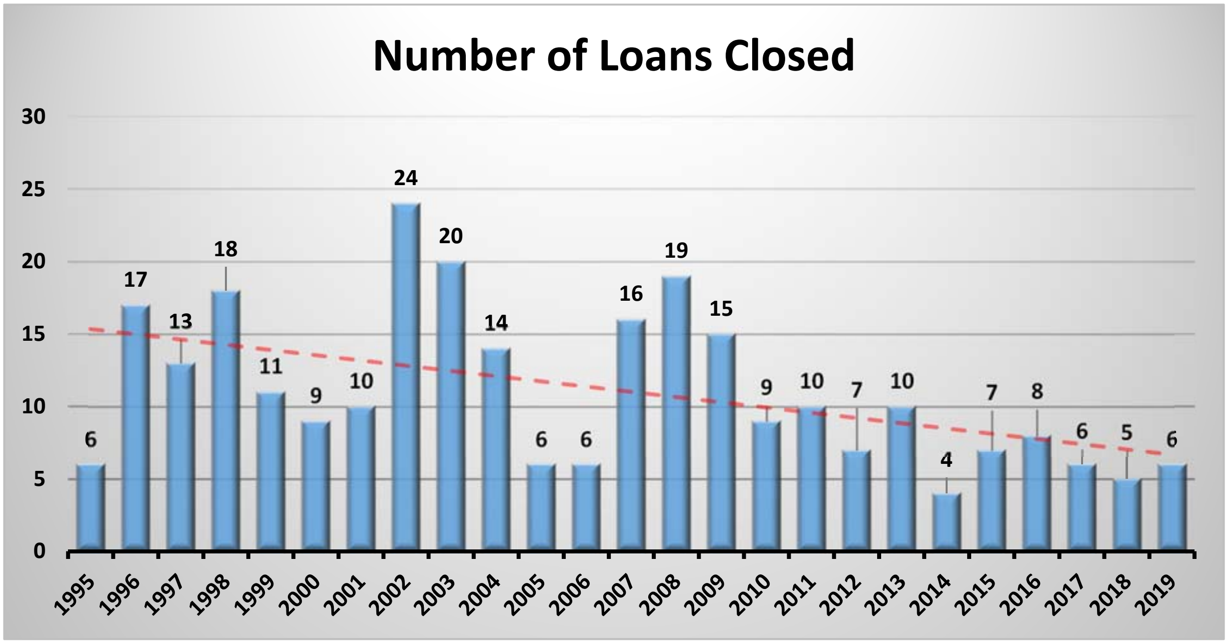
HELP II borrowers represent a diverse pool of non-profit health facilities throughout the state that give back to their respective communities in a multitude of different ways. HELP II borrowers range from community care clinics serving low-income populations, to group homes providing stable environments and more. These facilities provide invaluable services to the people of California and HELP II assists them through the availability of low-cost financing.

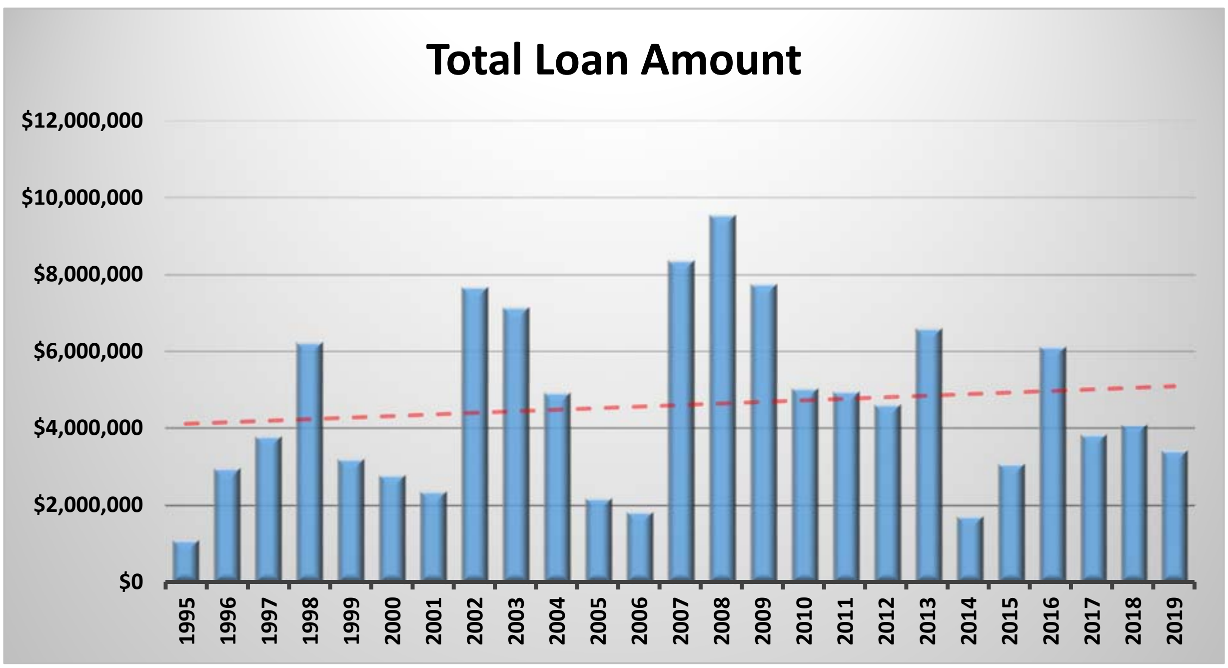
Portfolio

Since 1995, CHFFA has issued 276 loans for an aggregate total of $115.1 million to 182 health facilities. As of December 31, 2019, there were 79 active loans with a total outstanding amount of approximately $25.1 million.



The following graphs provide a synopsis of HELP II as a whole, from 1995 through 2019.

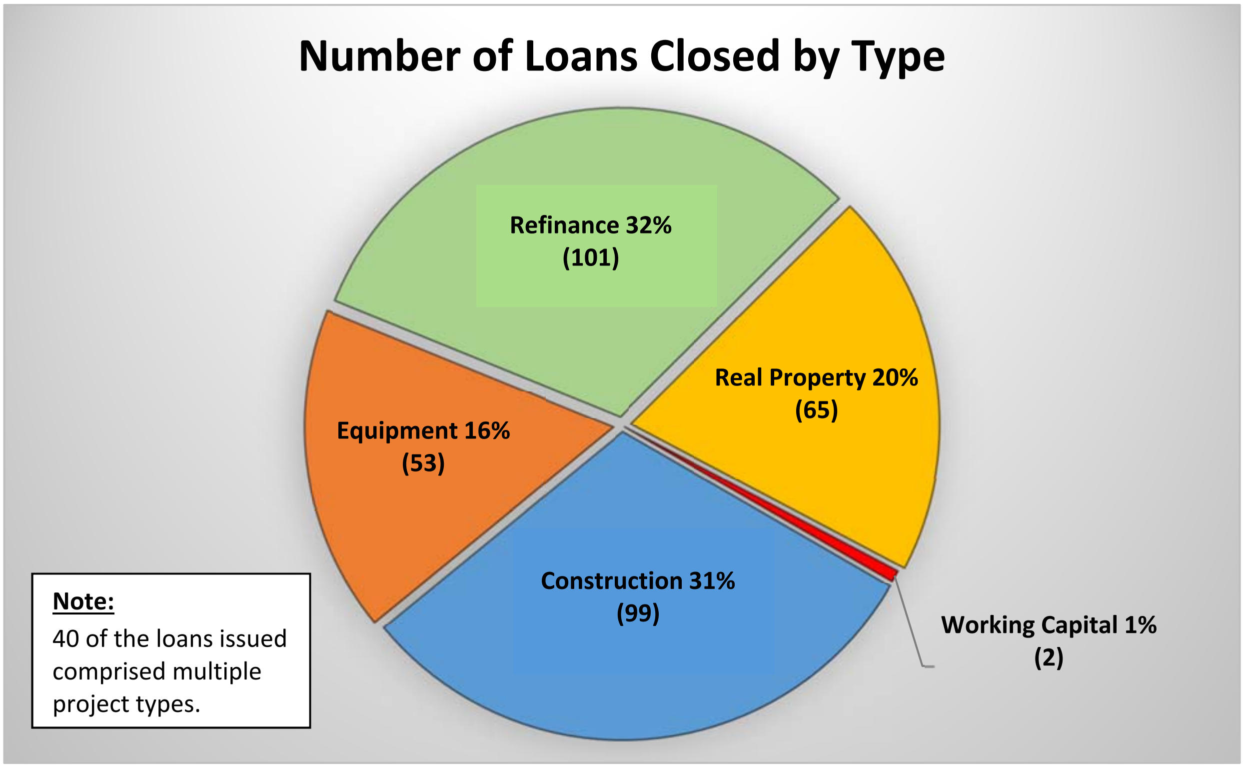


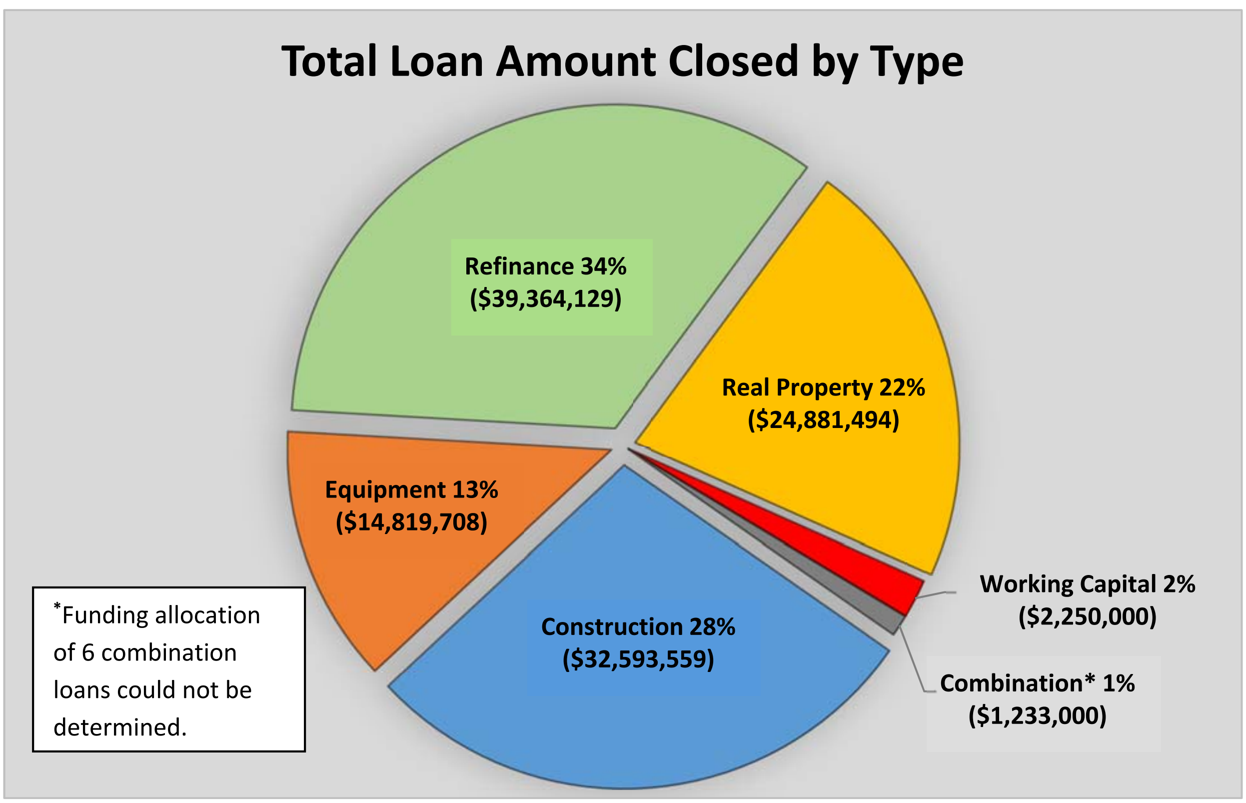


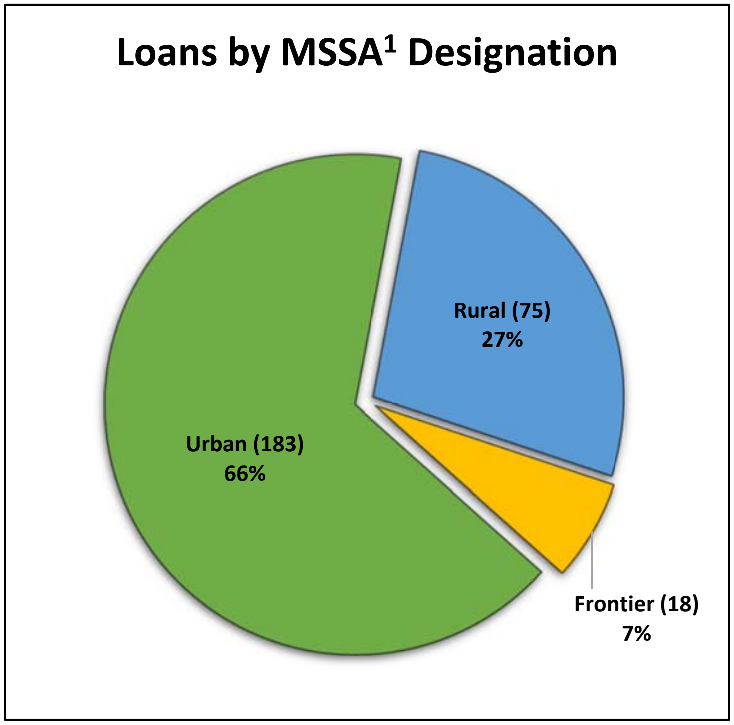
Over the course of HELP II's history, the number of loans closed per year has exhibited a decreasing trend while the total dollar amount of loans closed each year has experienced an increasing trend. The diverging trends of these two graphs indicates that the total loan amount closed each year has been supported by larger individual loan amounts.

- **Average number of loans closed per year (historically):** 11
- **Average total loan amount closed per year (historically):** $4,605,676

The charts below show the overall breakdown of the types of loans HELP II has funded from 1995 to 2019. Throughout the history of HELP II, refinancing and construction projects have been the most prevalent, but these charts display a healthy mix of all project types.







Likewise, looking at the localities from where HELP II borrowers have come, there is a robust array, measured both by MSSA[1] designation and by geographic region. From the chart to the left, about one in three HELP II loans closed are in a location designated as rural or frontier. From the chart below, there is a relatively even spread of loans closed throughout California, from Modoc County in the north all the way down to San Diego County in the south.

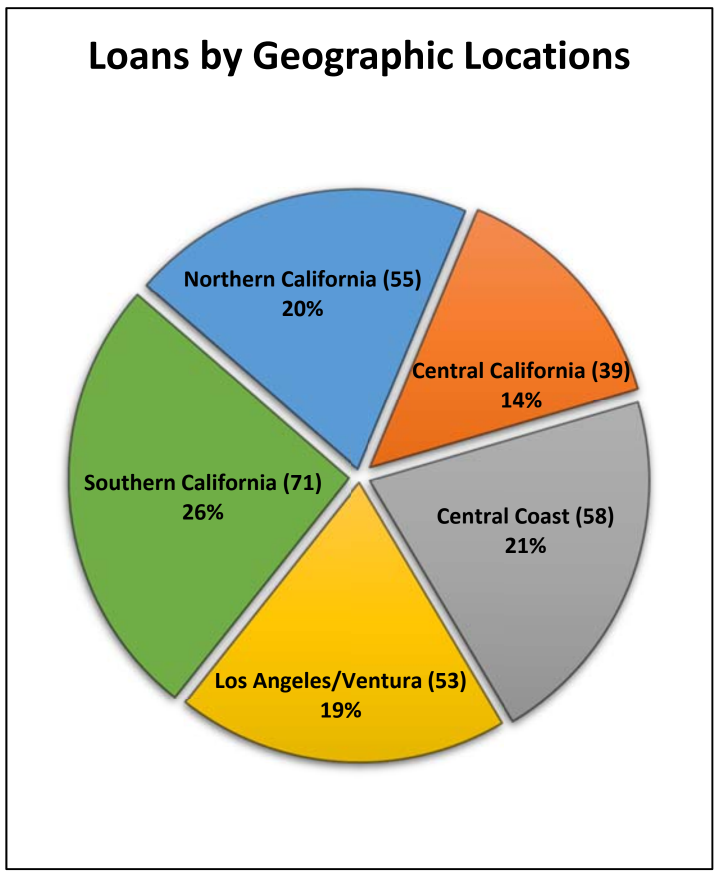
Northern California Counties: Butte, El Dorado, Humboldt, Lassen, Mendocino, Modoc, Nevada, Placer, Plumas, Shasta, Sutter, Trinity and Yuba

Central California Counties: Amador, Calaveras, Fresno, Kings, Madera, Merced, Sacramento, San Joaquin, Stanislaus, Tulare and Yolo

Central Coast Counties: Alameda, Contra Costa, Marin, Monterey, Napa, San Benito, San Francisco, San Mateo, Santa Clara, Santa Cruz, Solano and Sonoma

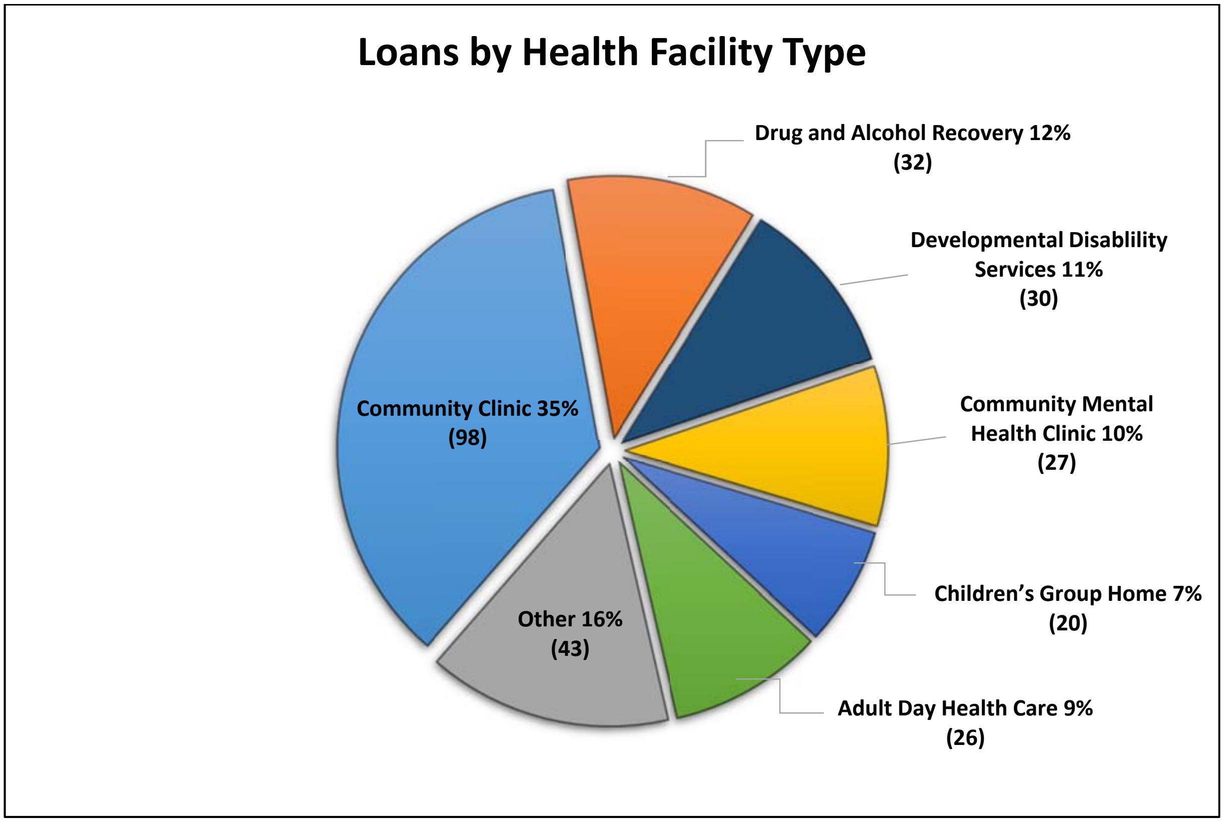
Los Angeles/Ventura Counties: Los Angeles and Ventura

Southern California Counties: Kern, Orange, Riverside, San Bernardino, San Diego, San Luis Obispo and Santa Barbara



[1] Medical Service Study Area (MSSA) designations are defined by the California Healthcare Workforce Policy Commission within the Office of Statewide Health Planning and Development and determined by population density. A **Rural** designation is a population density of 250 persons or less per square mile and having no incorporated area greater than 50,000 persons. A **Frontier** designation is a population density equal to or less than 11 persons per square mile.

HELP II borrowers represent a diverse group of health facilities, and the following chart displays different types of health facilities that received financing with HELP II loans. Approximately a third of projects are for community clinics, but the chart also shows a variety of other health facility types that HELP II has funded with some regularity.



The "Other" category includes the following health facilities below.

Acute Care Hospital	Acute Psychiatric Hospital
Group Home	Community Care
Health Care District	Retirement Center
Adult Transitional Program	Helicopter Medical Evaluation Firm
Community Work Activity Program	Chronic Dialysis Clinic
Skilled Nursing	Indian Clinic
Foster Family Agency	Adult Residential

Summary of 2019 Calendar Year Financings

In 2019, the Authority approved eight HELP II loans totaling $6,243,054, the results of which are:

- 6 loans closed in 2019
- 1 loan was in the process of closing (closed in 2020)
- 1 loan did not close

In 2019, the Authority closed six HELP II loans totaling $3,413,054. The following provides a summary of the six HELP II loans that closed in 2019.

Sierra View Homes
$750,000; 2%; 20 years
Loan proceeds were used to finance the construction/expansion of an existing dining center to fit the changing needs of Sierra View Homes' expanding participant base.

Humboldt Senior Resource Center, Inc.
$675,000; 3%; 15 years
Loan proceeds were used to refinance an existing private loan that was used to finance the construction of a new facility located in Eureka.

Unicare Community Health Center
$529,054; 2%; 5 years
Loan proceeds were used to finance the purchase of medical equipment and information technology for its various health facilities.

Key Community Housing, Inc.
$498,000; 3%; 15 years
Loan proceeds were used to refinance the mortgage of a residential home that housed developmentally disabled individuals who were moved out of the institutional system.

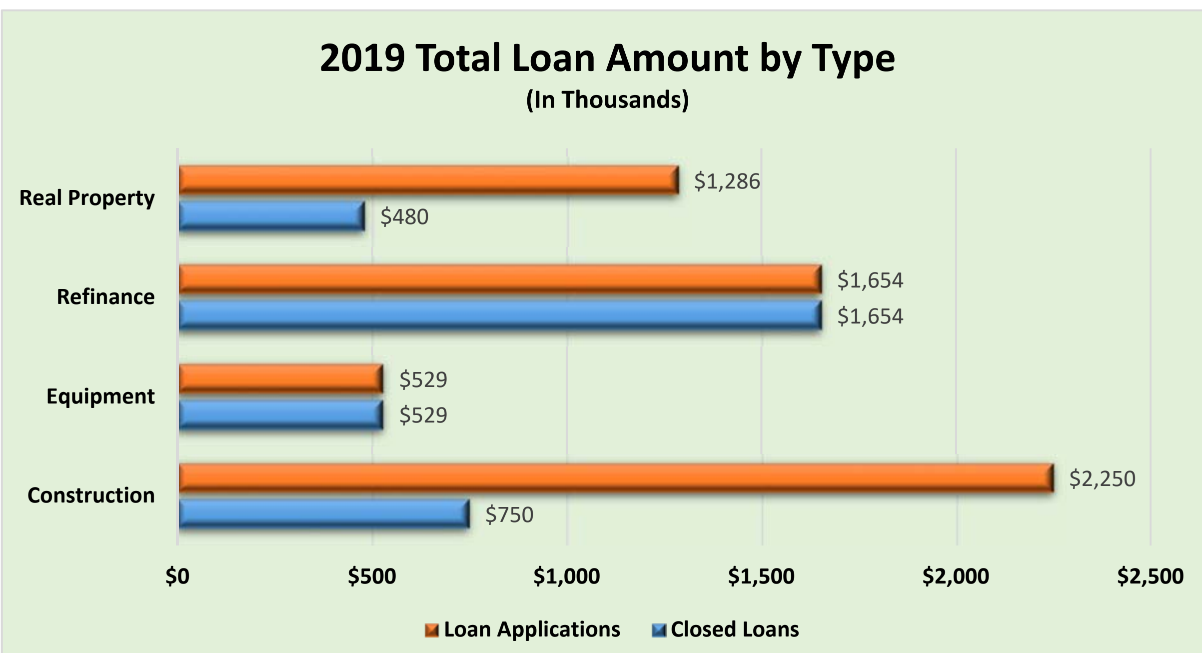
Key Community Housing, Inc.
$481,000; 3%; 15 years
Loan proceeds were used to refinance the mortgage of a second residential home that housed developmentally disabled individuals who were moved out of the institutional system.

TLC Child & Family Services
$480,000; 2%; 20 years
Loan proceeds were used to finance the purchase of a home to be used for transitional housing for clients who are transitioning from TLC's foster care services.

In addition to the approved HELP II loans, CHFFA receives applications that are not presented to the board for various reasons. These applications can offer useful insight for what projects potential borrowers are interested in financing. The following chart displays general information about the two loan applications CHFFA received that were not presented to the board. The total loan amount requested for these applications was $2,306,332.

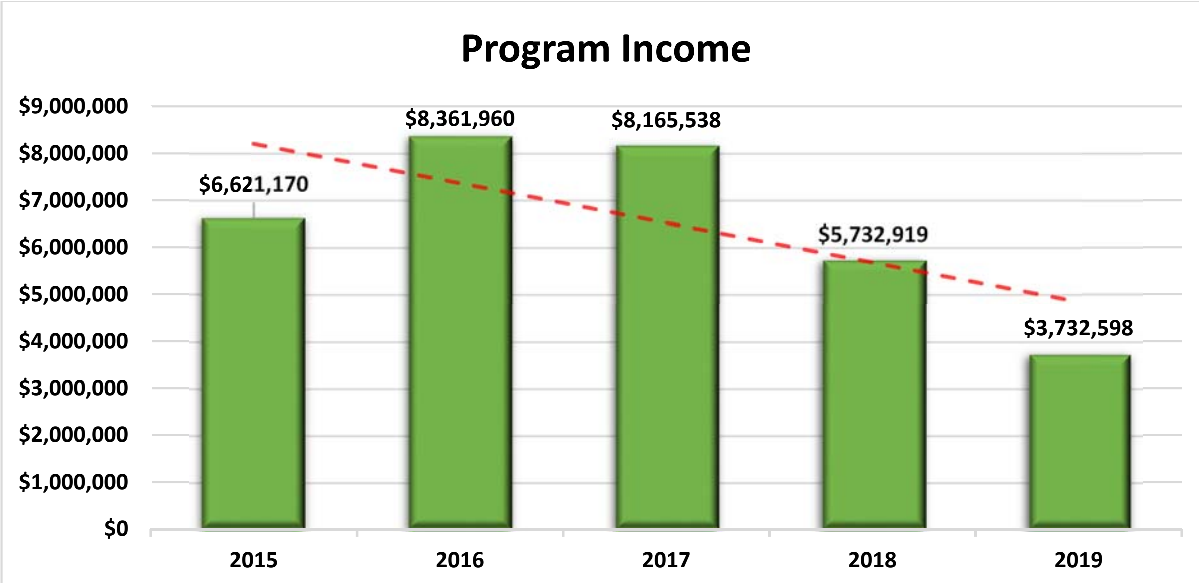
Facility	Loan Amount	Use of Loan Proceeds	Reason for Non-approval
Community Medical Centers, Inc.	$806,332	Real Property	Over $30 million in gross revenue in an urban MSSA designation
Vocational Visions, Inc.	$1,500,000	Renovation	Cost of project with prevailing wage exceeded maximum loan amount

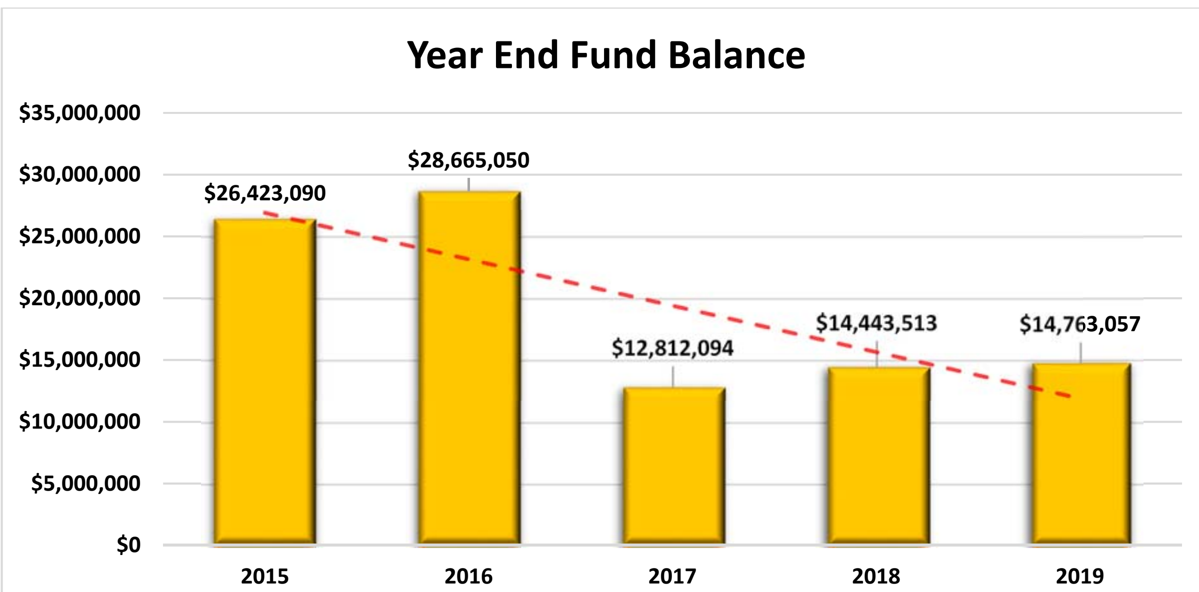
The chart below presents the loan amounts both for the loans closed and the applications CHFFA received in 2019. More funds were used for refinance loans than any other type of loan closed; however, when accounting for all loan applications, there appears to be a more even split among all loan types. Overall, it seems there was no one particular type of project borrowers were significantly more interested in financing in 2019. Additionally, the amount for the two construction loan applications averaged about $1.1 million, whereas all of the other applications averaged about $578,000. These averages suggest that construction projects require significantly larger loan amounts than other project types.



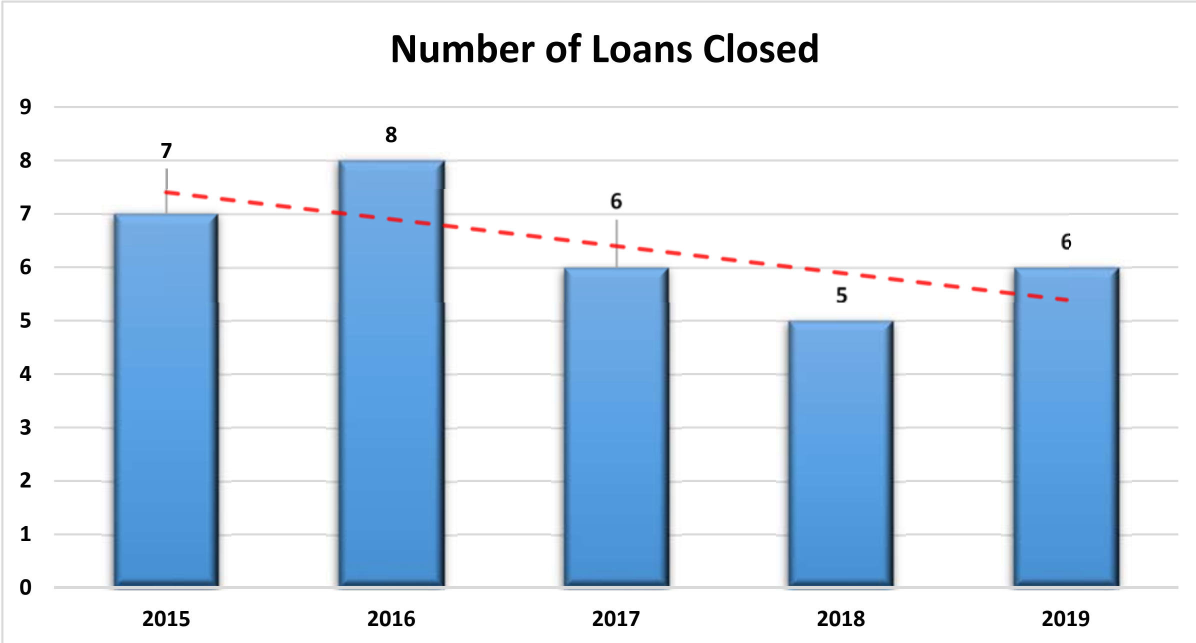
Five-Year Trends

The following charts take a more focused look at the most recent five years, from 2015 through 2019.

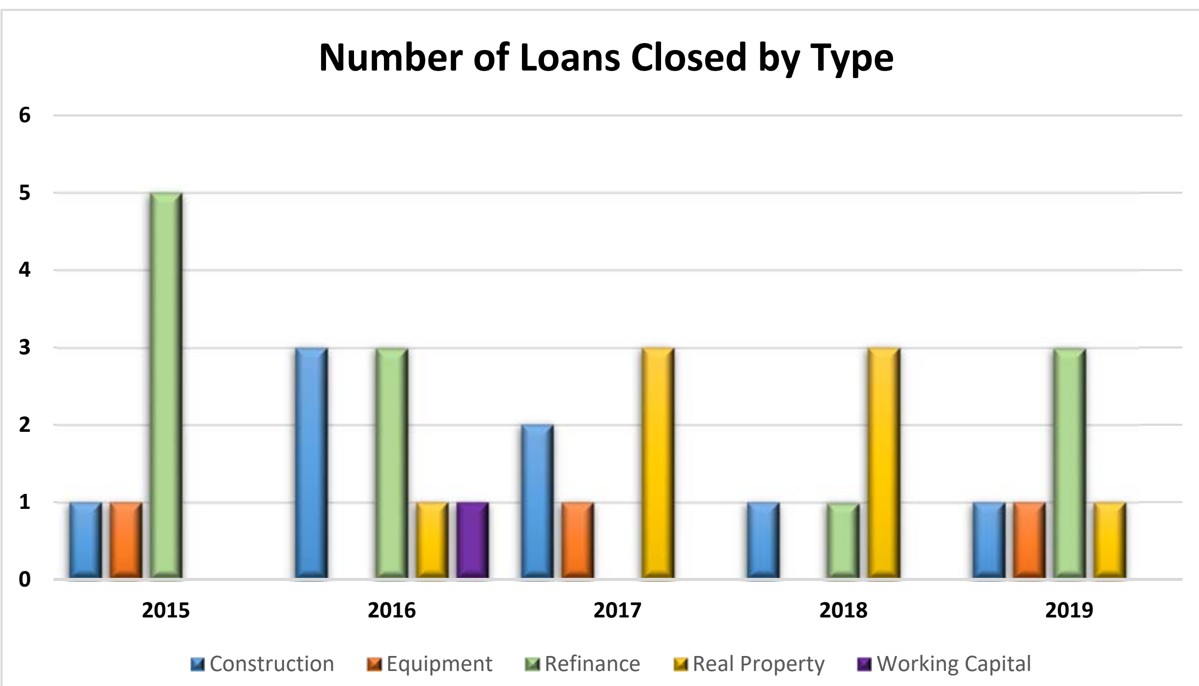


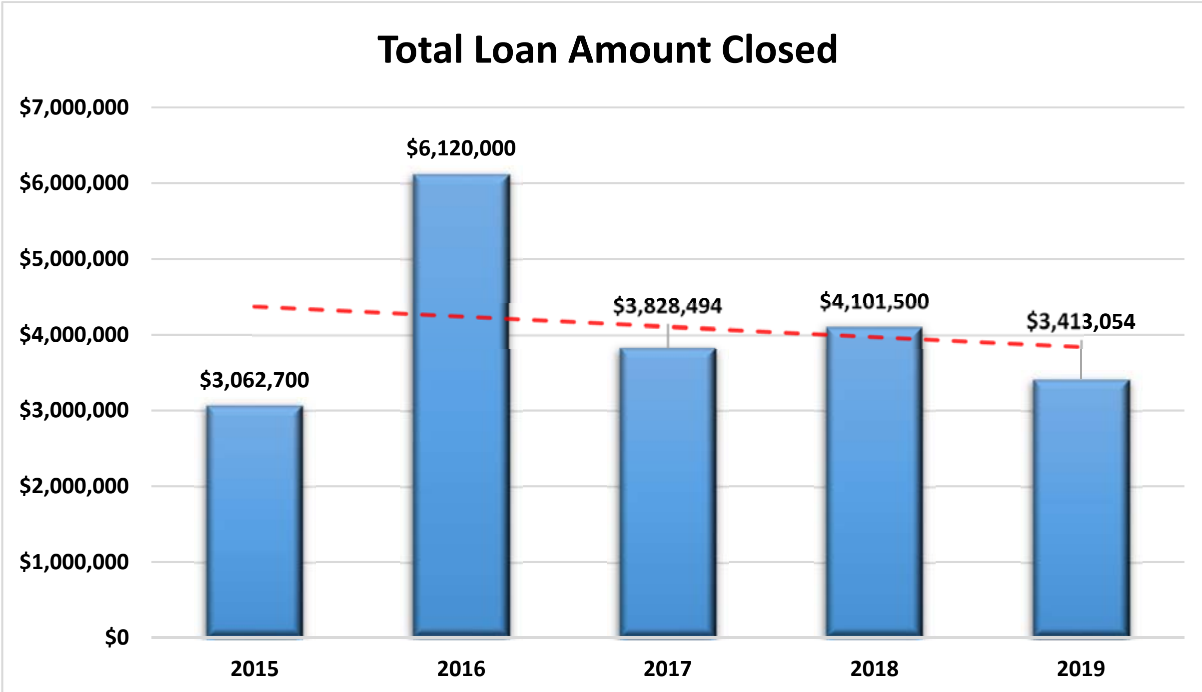


Program income includes principal and interest payments made on outstanding loans each year plus interest earned on the HELP II fund balance. The Program Income chart appears to show a decreasing trend from 2016 – 2019 with larger decreases in 2018 and 2019. The Year End Fund Balance chart shows a similar pattern with the sharp decrease occuring one year earlier, in 2017. In 2017, $20 million was removed from the of HELP II fund balance to create the Lifeline Grant Program. The decreased fund balance in 2017 led to diminished interest earnings on those funds, thus significantly contributing to the decrease in program income in 2018 as well as 2019. Any funds not awarded for the Lifeline Grant Program on June 30, 2020 are expected to revert to the HELP II fund at the beginning of July 2020.

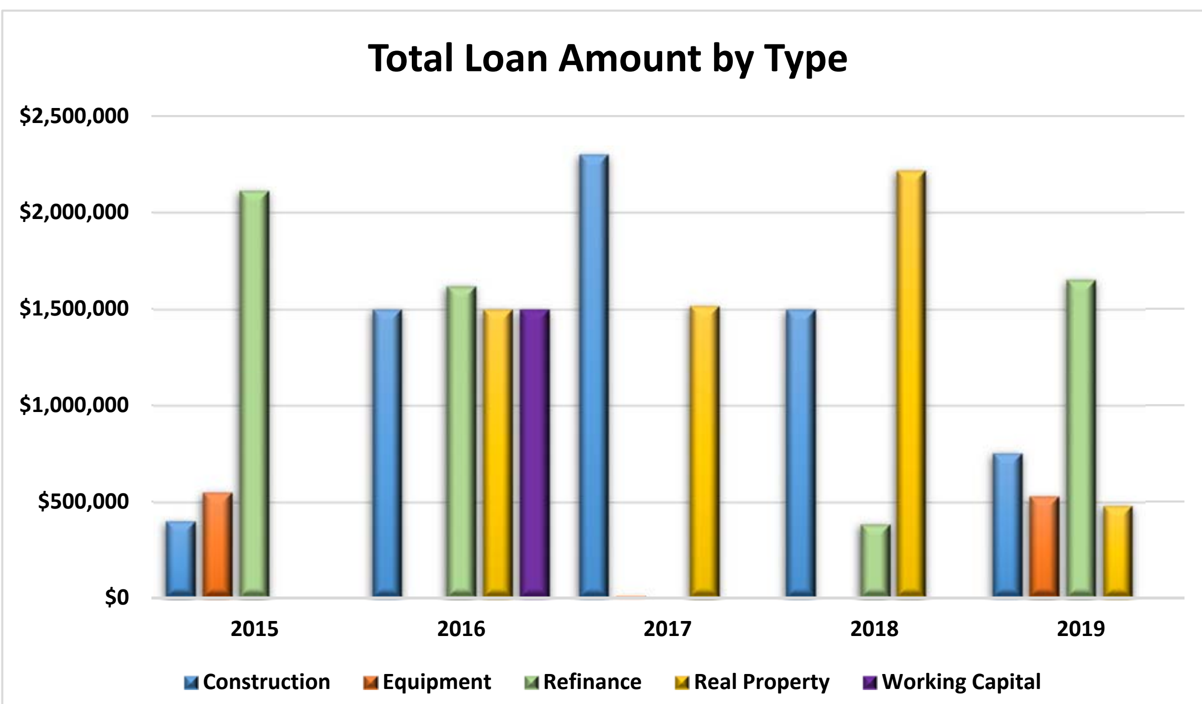


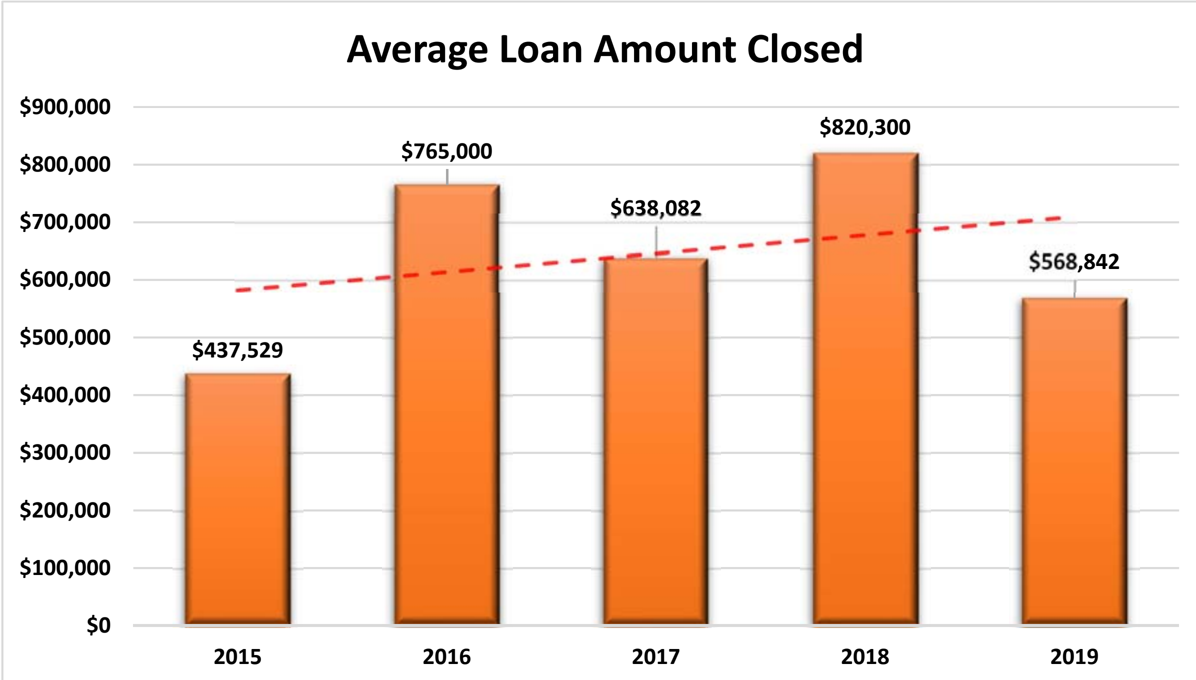
In the last five years, HELP II has closed 32 loans totaling about $20.5 million, and over time the make-up of those loans has changed. The chart below shows a more robust and accurate picture of what projects the HELP II loans have funded. In particular, refinancing loans were the most utilized loans in 2015 and 2016, but in 2017 and 2018, the need shifted to real property acquisition. This suggests that health facilities were looking to expand in more recent years. In 2019, there appeared to be a renewed desire for refinancing loans, but it is worth noting that two of the refinancing loans were done at the same time with the same borrower.





Although there seemed to be greater emphasis in the number of real property acquisition loans in 2017 and 2018, the total loan amount by type leads to a different observation. In 2017 and 2018, construction projects required greater funding amounts per project than their real property acquisition counterparts as the total loan amounts for construction projects either exceeded the total loan amounts for real property acquisition or were significantly high considering the number of loans. This observation supports the remark made earlier in the 2019 Total Loan Amount by Type chart where the averages suggest that construction projects require significantly larger loan amounts to complete than other project types.





In the graph above, there is a clear increasing trend in the average loan amount closed, which suggests that borrowers are, on average, requesting more money to fund their projects. Furthermore, it is important to note that in 2015 several programmatic changes were made for the purpose of enhancing access to HELP II, including decreasing the interest rate and increasing the maximum loan amount for all loan types except refinancings. As a result, 19 loans closed at the new 2% interest rate, and six loans were over $1 million during these five years.

The following information summarizes a typical year for HELP II based on the last five years.

Average program income per year: $6,522,837

Average year-end fund balance: $19,421,361

Average number of loans closed per year: 6

Average loan amount closed per year: $645,951

Average total loan amount closed per year: $4,105,150

Program Goals for Calendar Year 2020

In the 2018 HELP II annual report, CHFFA set goals for calendar year 2019 of closing at least six loans and closing at least $4.5 million in loans. In calendar 2019, CHFFA closed approximately $3.4 million in loans, $1.1 million short of the $4.5 million goal for total loan amount. However, CHFFA did close six loans, meeting the goal for number of loans closed in calendar year 2019.

According to the U.S. Bureau of Economic Analysis[2], the United States gross domestic product dropped from about 3% in the first quarter of 2019 to hover at just over 2% for the second and third quarters. At the end of calendar year 2019, CHFFA also experienced greater interest in HELP II loans from potential borrowers. With that in mind, CHFFA set goals for calendar year 2020 projecting a 25% increase in volume over the year-end numbers for 2019. With six loans closed for $3.4 million in 2019, the goals set for 2020 are:

- Close at least 8 loans
- Close at least $4.3 million in loans

Considering the economic uncertainty relating to the COVID-19 pandemic, demand may decrease for new money projects as well the appetite for potential borrowers to incur additional debt.

In order to better serve the needs of health facilities affected by the COVID-19 pandemic, staff are preparing to process applications and requests for the COVID-19 Emergency HELP Loan Program and the HELP II Loan Program Debt Service Payment Deferral, respectively. As such, staff will revisit the goals for HELP II in the 2020 HELP II annual report.

[2] https://www.bea.gov/system/files/gdp1q20_adv_chart-01.png