CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)

2020 ANNUAL REPORT

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Overview

The Healthcare Expansion Loan Program (HELP) was designed to provide small and rural health facilities with financing for capital needs through low cost loans. HELP became operational in 1988. The HELP program soon ran into trouble as CHFFA took no security on the loans, and there were no interest or initial fee charges. The HELP program made 39 loans totaling $5.7 million and was superseded by the HELP II Loan Program (HELP II) in 1995.

In order to create a more financially robust and self-sustaining program than the original HELP program, CHFFA established provisions to protect its loans, which included requiring collateral, establishing a 3% interest rate, and charging a one-time loan origination fee. The following chart shows the general progression of the programmatic changes through 2015.

Year	Maximum Loan Amount	Maximum Annual Gross Revenues[1]	Interest Rate	Maximum Term
1995	$300,000	$10 million	3%	10 years
1997	$500,000	$10 million	3%	15 years
1999	$400,000	$10 million	3%	15 years
2001	$400,000	$20 million	3%	15 years
2005	$500,000	$20 million	3%	15 years
2007	$750,000	$30 million	3%	15 years
2012	$1,000,000	$30 million	3%	15 years
2015	$1,500,000[2]	$30 million	2%[3]	20 years[4]

[1] Maximum annual gross revenues eligibility requirement does not apply to rural health facilities and district hospitals.

[2] Maximum loan amount for refinancing loans remained at $1,000,000.

[3] Interest rate for refinancing loans remained at 3%.

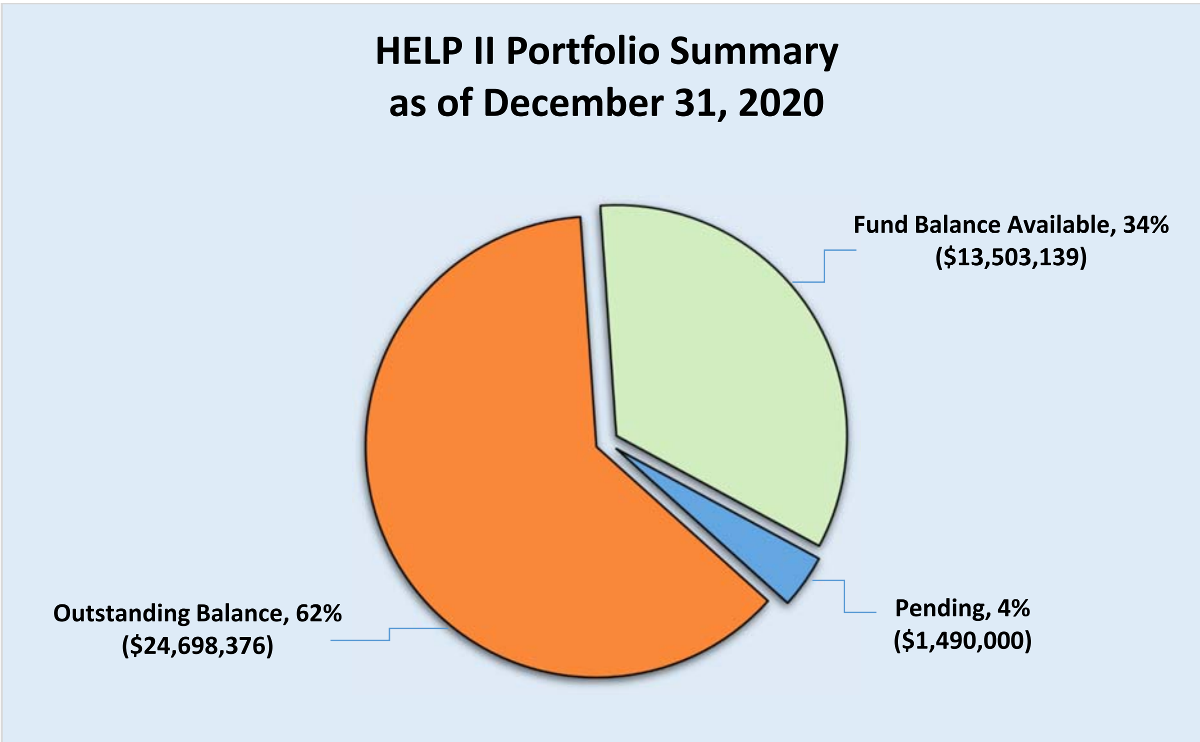
[4] Maximum term for refinancing loans remained at 15 years.

Through HELP II, 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 participating health facilities. Other eligibility requirements include, but are not limited to, evidence of fiscal soundness and ability to repay the loan.

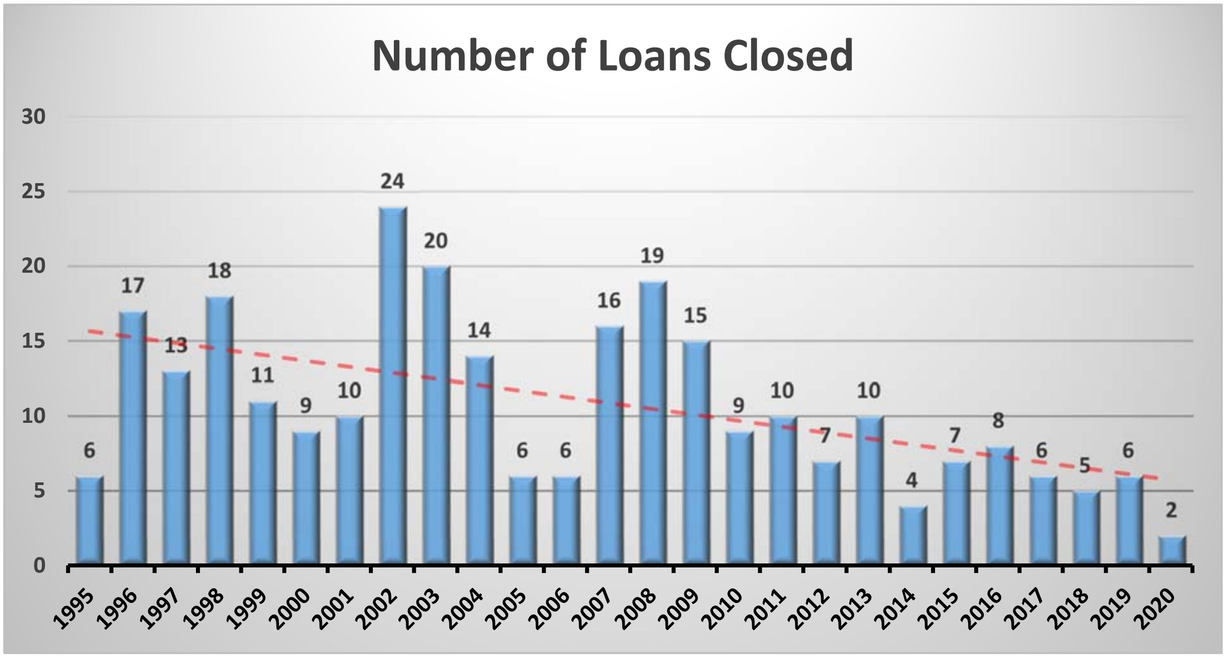
HELP II borrowers represent a diverse pool of non-profit health facilities throughout the state that give back to their respective communities in a multitude of different ways. HELP II borrowers range from community care clinics serving low-income populations, to group homes providing stable environments,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

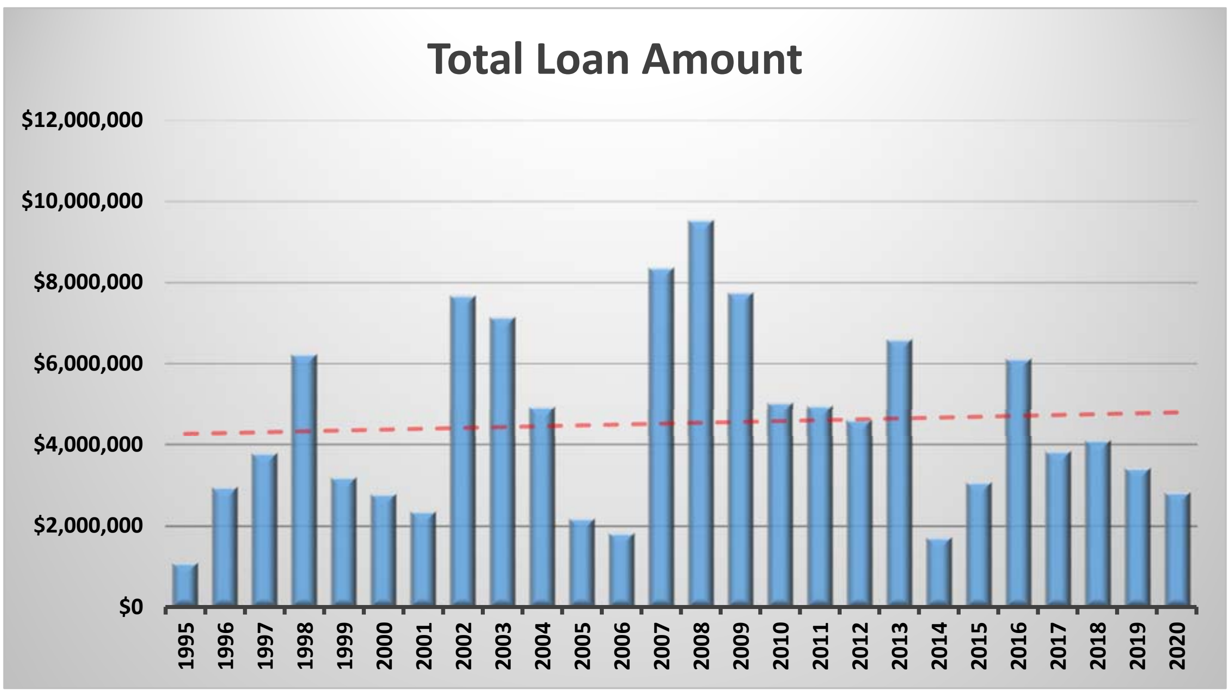
Portfolio

Since 1995, CHFFA has issued 278 loans for an aggregate total of $118 million to 182 health facilities with a 0% default rate. As of December 31, 2020, there were 74 active loans with a total outstanding amount of approximately $24.7 million and a total Program portfolio amount of approximately $39.7 million.



The following graphs provide a synopsis of HELP II as a whole, from 1995 through 2020.

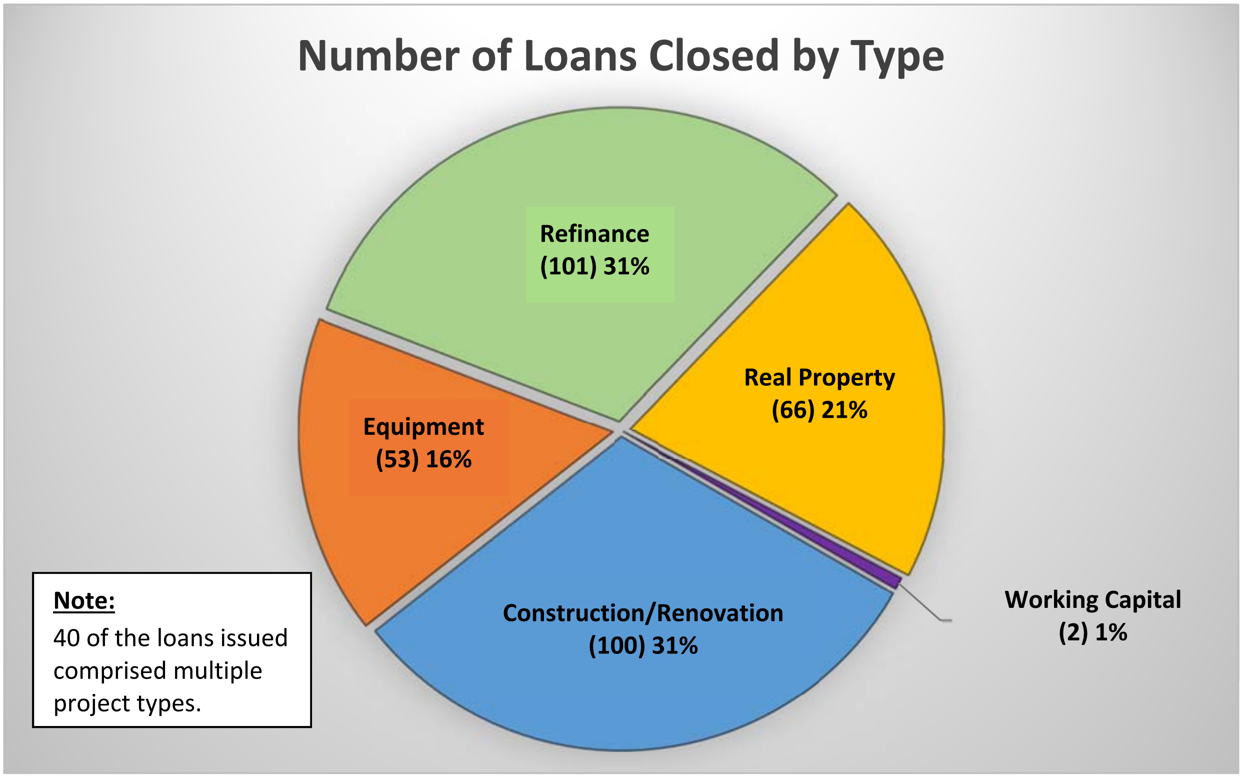


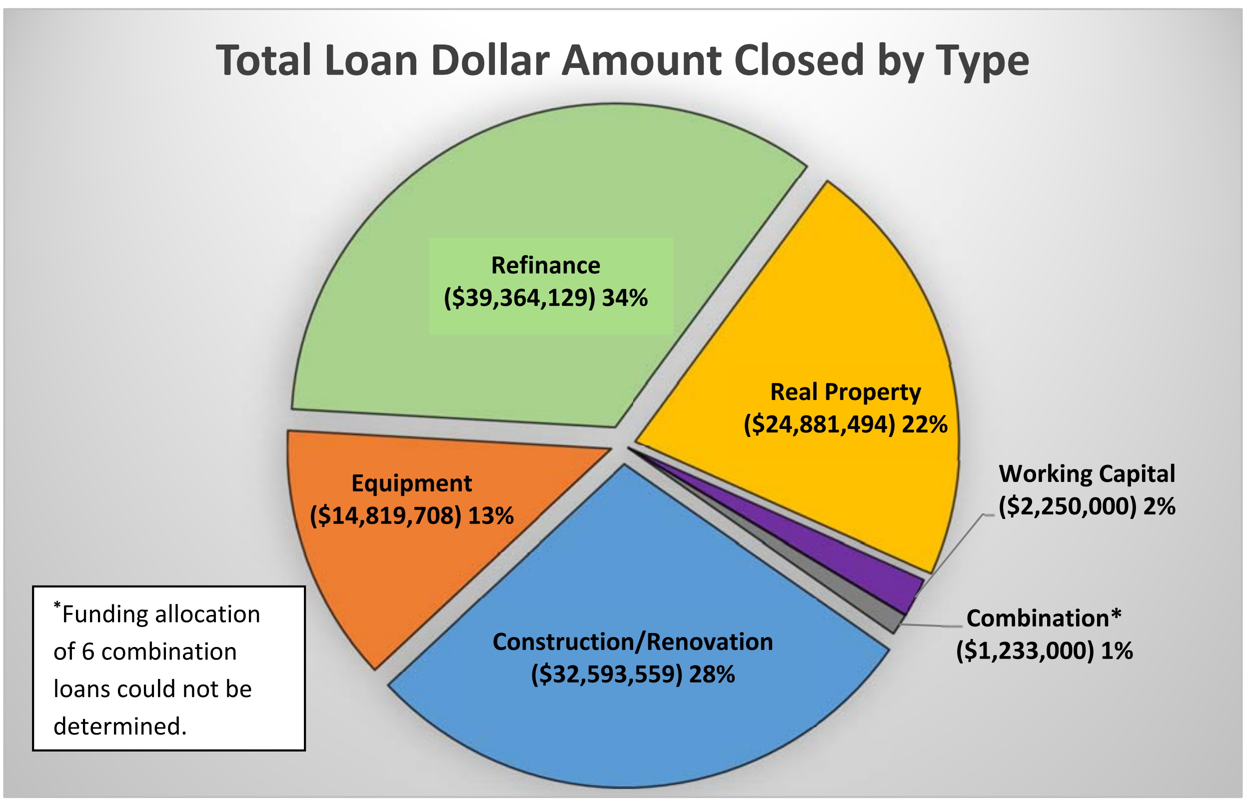


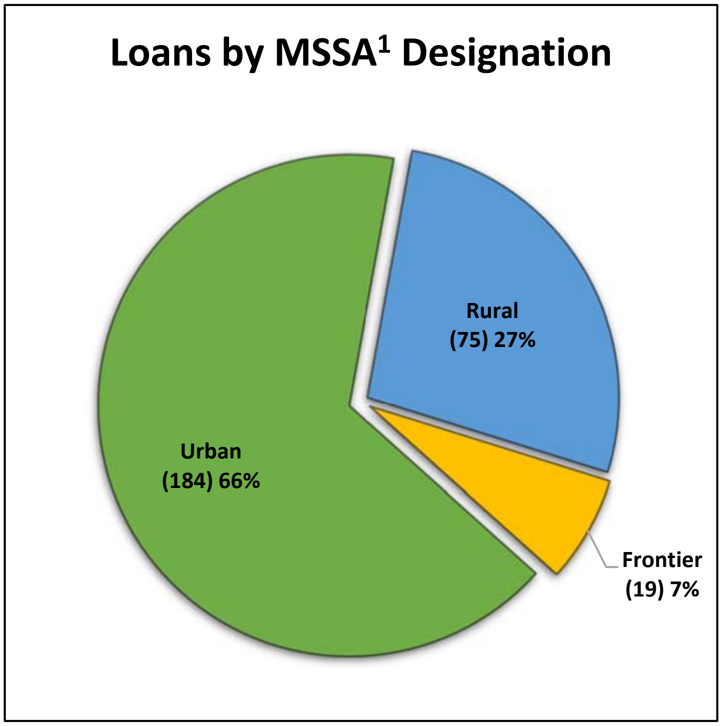
Over the course of HELP II's history, the number of loans closed per year has exhibited a decreasing trend while the total dollar amount of loans closed each year has experienced a slightly increasing trend. The diverging trends of these two graphs indicates that the total loan amount closed each year 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):** $4,058,610

The charts below show the overall breakdown of the types of loans HELP II has funded from 1995 to 2020. Throughout the history of HELP II, refinancing and construction/renovation 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.

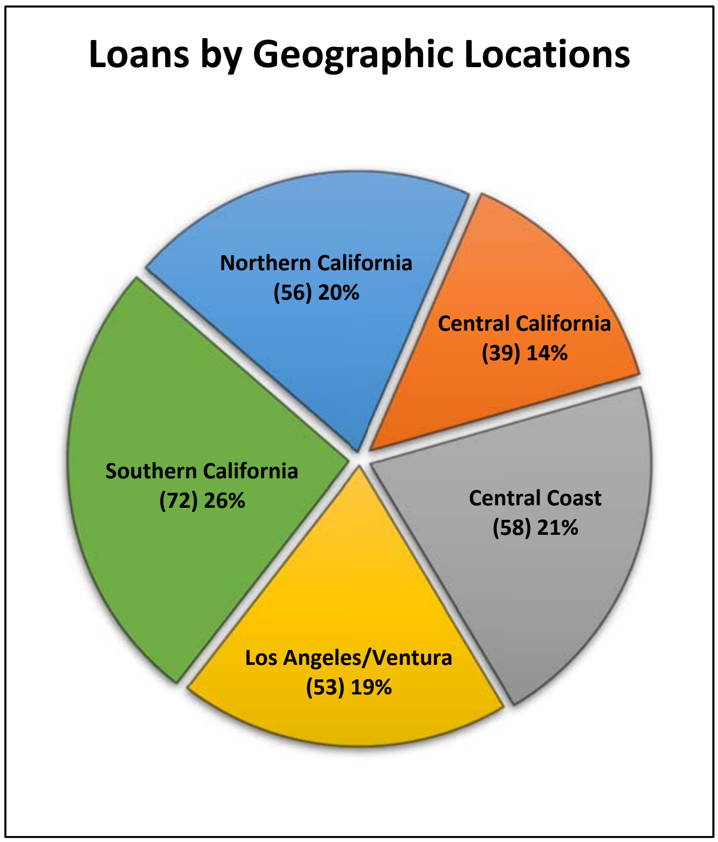
Northern California Counties: Butte, El Dorado, Humboldt, Lassen, Mendocino, Modoc, Nevada, Placer, Plumas, Shasta, Sutter, Trinity and Yuba

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

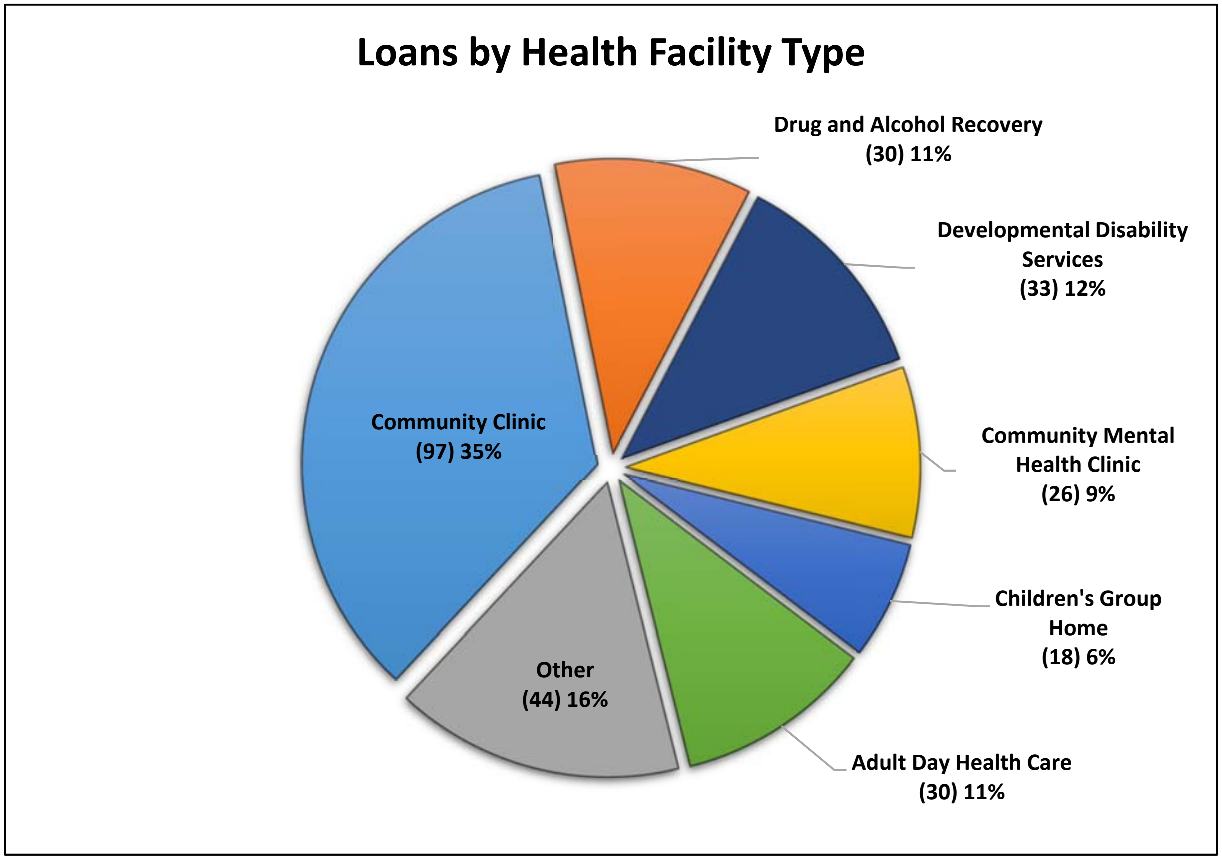
Los Angeles/Ventura Counties: Los Angeles and Ventura

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 Calendar Year 2020 Financings

In 2020, the Authority approved two HELP II loans totaling $2,990,000, the results of which are:

- 1 loan closed in 2020
- 1 loan was in the process of closing (closed in 2021)

In 2020, the Authority closed two HELP II loans totaling $2,830,000. The following provides a summary of the two HELP II loans that closed in 2020.

Mayers Memorial Hospital District (Shasta County)

$1,500,000; 2%; 20 years

Loan proceeds were used to finance the renovation of the Burney Rural Health Clinic to meet Office of Statewide Health Planning and Development building code standards and increase access to primary care for patients in the district.

Hart Community Homes, Inc. (Orange County)

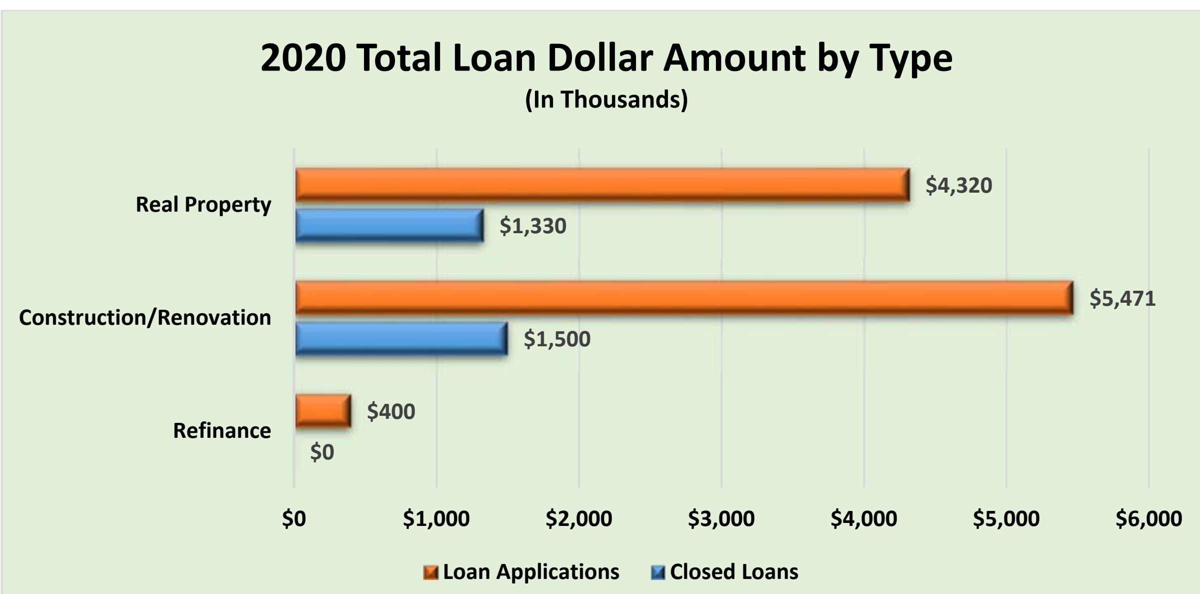
$1,330,000; 2%; 20 years

Loan proceeds were used to finance the purchase of a four-unit apartment complex in Fullerton to be used as shelter for at-risk young adults.

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 $2,470,946.

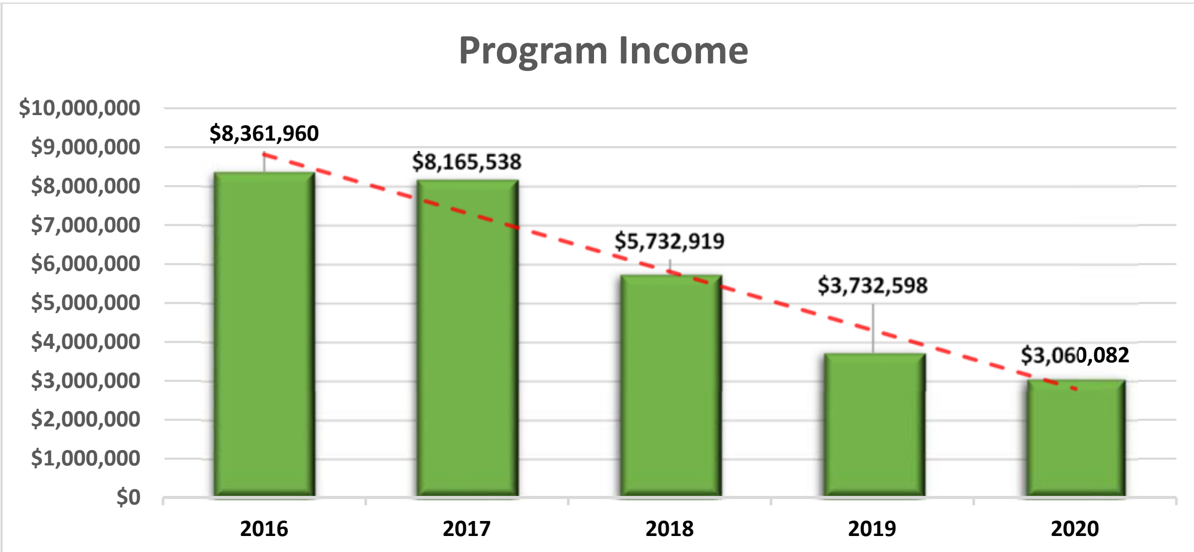
Facility	Loan Amount	Use of Loan Proceeds	Reason for Non-approval
Unicare Community Health Center, Inc.	$970,946	Renovation	• Debt service coverage ratio was below 1.0x • Applicant did not own property to provide as collateral. The subsequent debt service reserve fund collateral was not suitable to compensate for the financial risk
LoveJoy HomeCare LLC	$1,500,000	Real Property	Had not been in operation for at least three years

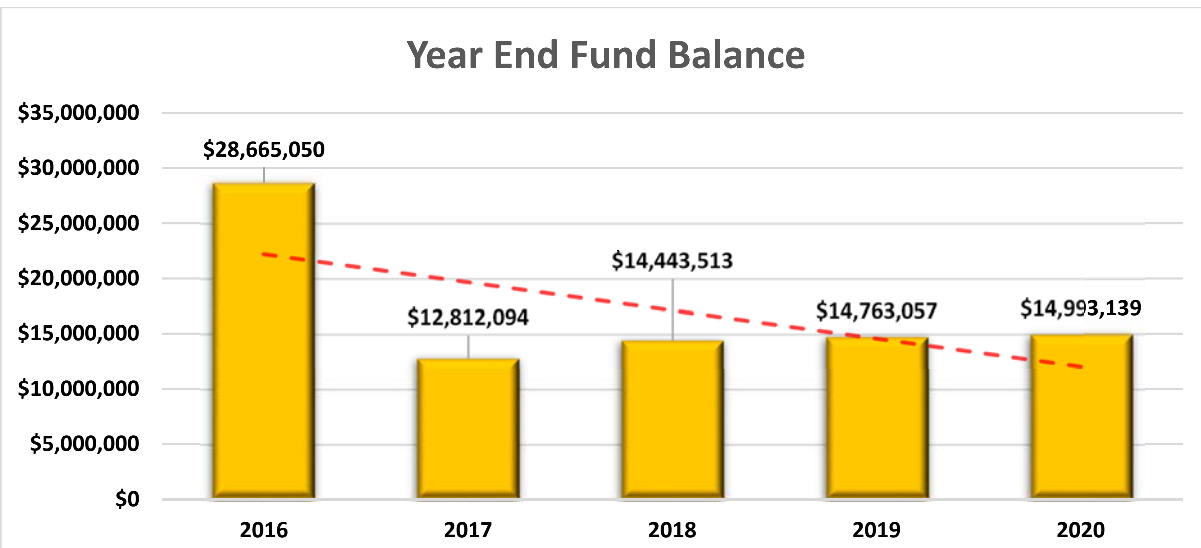
The chart below presents the loan amounts both for the loans closed and all the applications CHFFA received in 2020. From this chart, it appears that borrowers were primarily interested in two types of loans, real property acquisition loans and construction/renovation loans. Additionally, real property loans averaged $1,444,000 and construction/renovation loans averaged $1,367,737, as compared to the refinancing loan, which amounted to $400,000. Overall, this data suggests that borrowers are looking to expand but require large amounts of funding for these projects.



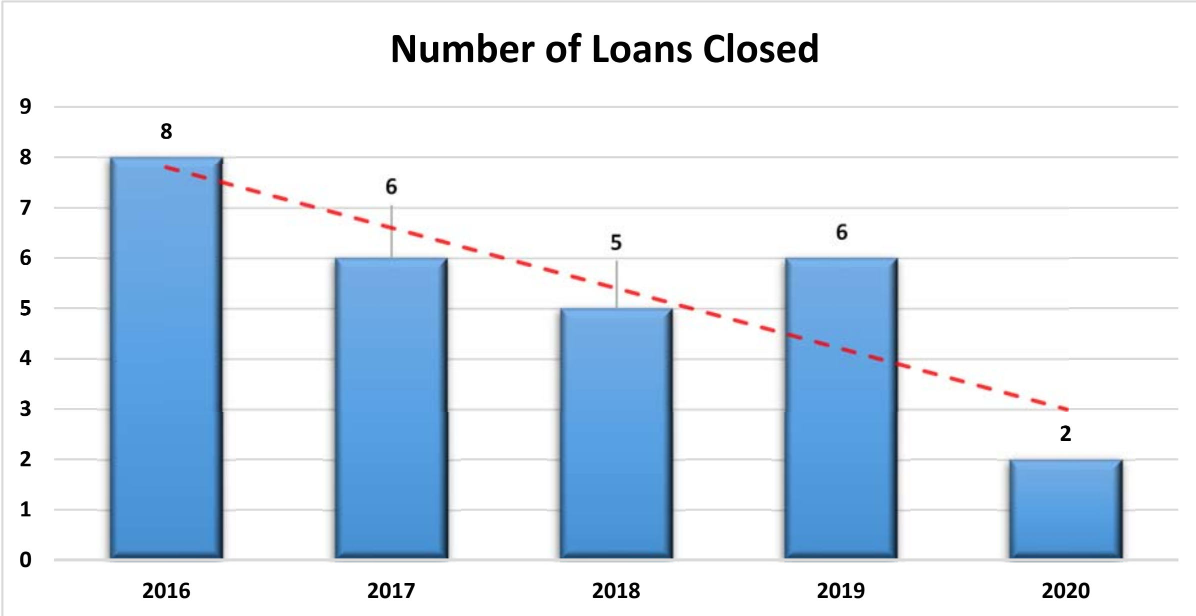
Five-Year Trends

The following charts take a more focused look at the most recent five years, from 2016 through 2020.

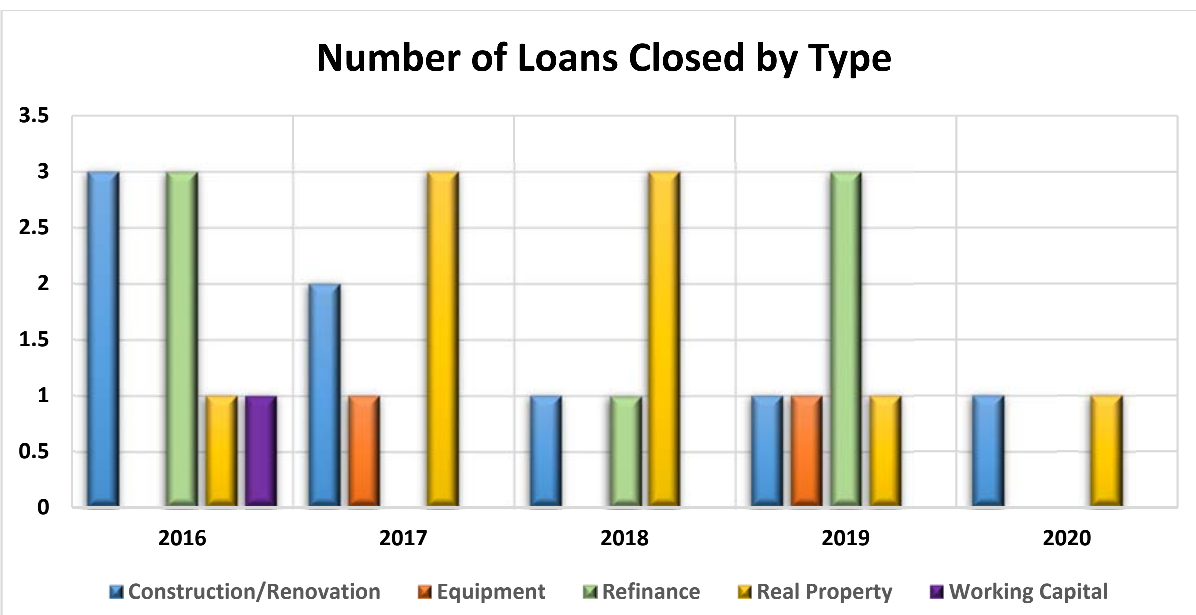


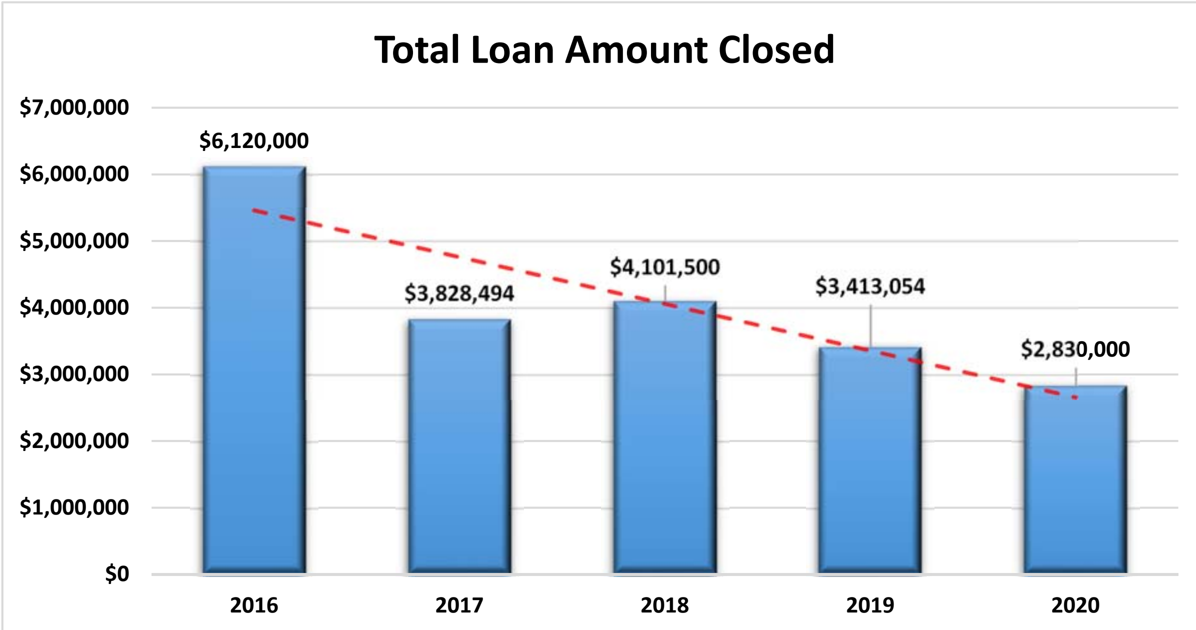


Program income includes principal and interest payments made on outstanding loans each year; application fees, loan closing fees, and late payment fees; and interest earned on the HELP II fund balance (it should be noted there are no expenses taken out of the fund). The Program Income chart appears to show a decreasing trend from 2016 – 2020 with larger decreases in 2018 and 2019. The Year End Fund Balance chart shows 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. However, the Year End Fund Balance chart also shows a slightly increasing trend from 2017 to 2020. This increasing trend paired with the decreasing trend from the Program Income chart indicates that the Program income tends to be greater than the amount loaned out in a given year.

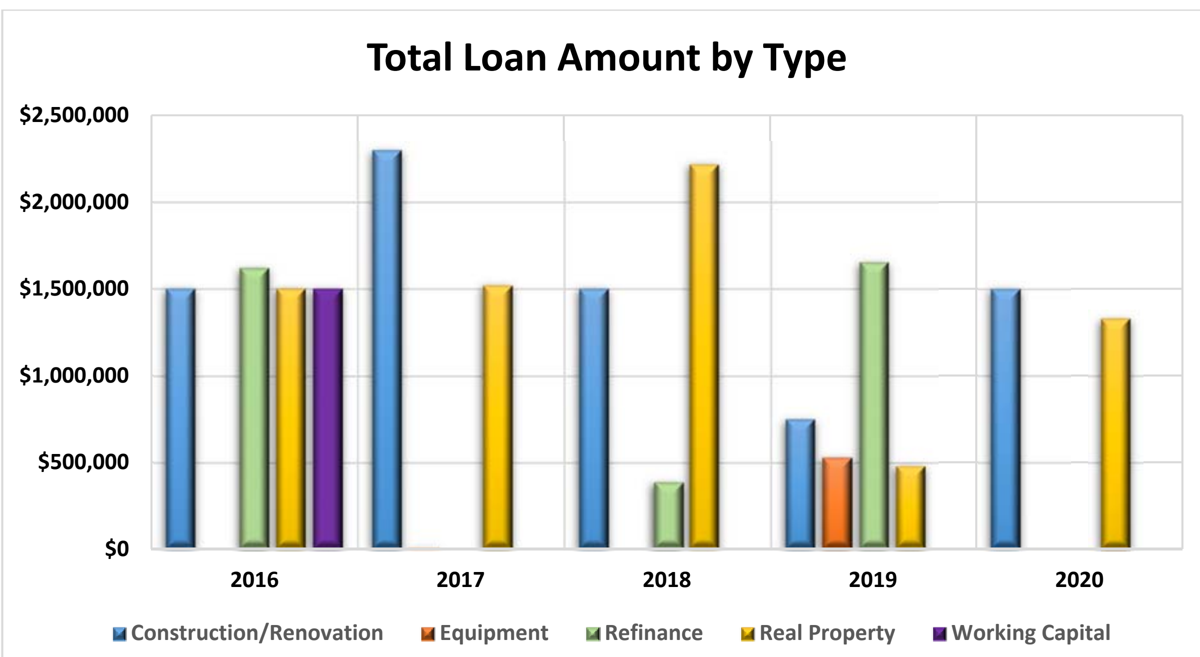


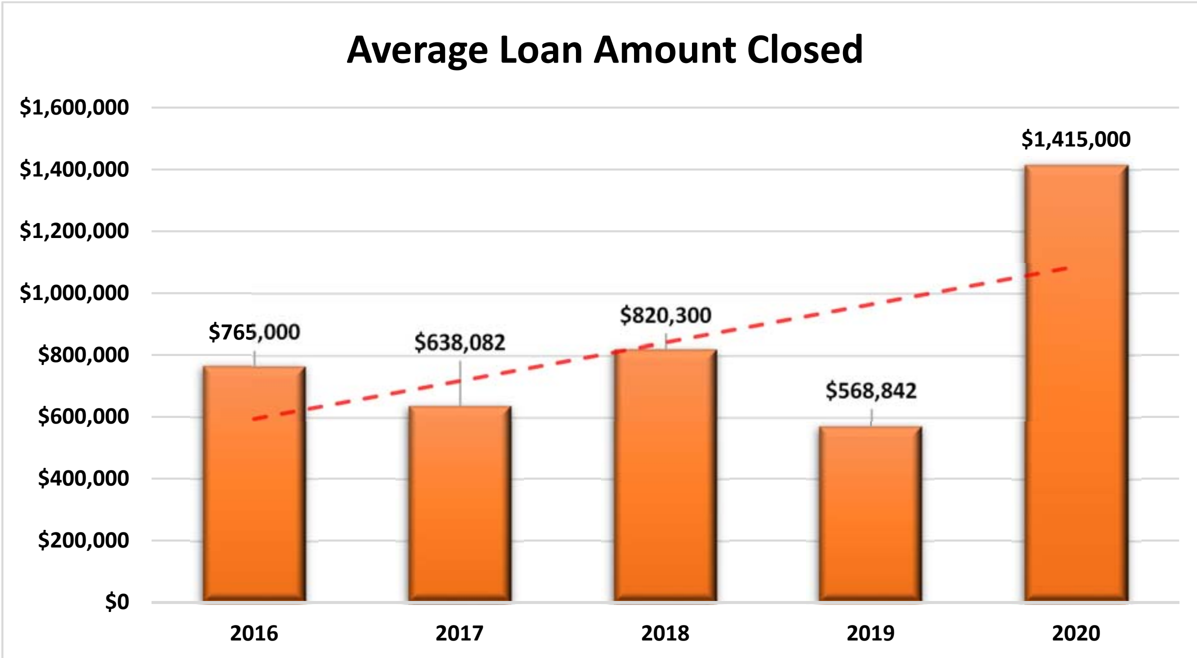
In the last five years, HELP II has closed 27 loans totaling about $20.3 million, and over time the make-up of those loans has fluctuated. The chart below shows a more robust and accurate picture of what projects the HELP II loans have funded. In particular, refinancing and construction/renovation loans were the most utilized loans in 2016, but in 2017 and 2018, the need shifted to real property acquisition, suggesting that health facilities were looking to expand. 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. Moreover, although 2020 only had two loans closed, it is interesting that neither were refinancing loans, particularly as these loans closed during the COVID-19 pandemic.





Although there seemed to be greater emphasis on the number of real property acquisition loans in 2017 and 2018, the total loan amount by type leads to a different observation. From 2017 to 2020, construction/renovation projects required greater funding amounts per project than their real property acquisition counterparts as the total loan amounts for construction/renovation projects either exceeded the total loan amounts for real property acquisition or were significantly high considering the number of loans.





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. Moreover, eight loans were over $1 million during these five years, two of which are accounted for in calendar year 2020 alone. These over $1 million loans further imply the growing need for larger funding amounts.

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

Average program income per year: $5,810,619

Average year-end fund balance: $17,135,371

Average number of loans closed per year: 5

Average amount closed per loan: $841,445

Average total amount closed per year: $4,058,610

Emergency HELP Loan and HELP II Loan Deferral Programs

In April 2020, the Authority approved the Emergency HELP Loan Program and the HELP II Loan Deferral Program to provide financial assistance to small and rural health facilities impacted by the COVID-19 pandemic.

Emergency HELP Loan Program

This Program allocates $5 million within the HELP II Loan Program to provide 0% interest rate loans, up to $250,000, for qualifying health facilities.

Below is a brief breakdown of the program overall.

- Total Number of Applications: 8
- Total Amount of Funds Requested: $1,617,049
- Total Number of Loans Approved: 2
- Total Amount of Loans Approved: $500,000

One of the main reasons why there was low interest in the program was due to the increased availability of federal funding. Of the health facilities that did apply, but did not receive funding, applications often failed be approved due to a lack of proof of COVID-19 impact and its relationship to the request for the loan funds. There were also some health facilities that were unable to apply because of their for-profit status.

HELP II Loan Deferral Program

This program allows current HELP II Loan Program borrowers affected by the COVID-19 pandemic to request a one-time deferral of HELP II loan debt service payments (principal and interest) for up to three months.

Below is a brief breakdown of the program overall.

- Total Number of Deferral Requests and Approvals: 5
- Total Number of Loans Deferred: 11
- Total Amount Deferred: $100,209.36
- All borrowers requested to defer the maximum of three months

Program Goals for Calendar Year 2021

In the 2019 HELP II Annual Report, CHFFA set goals for calendar year 2020 of closing at least eight loans and closing at least $4.3 million in loans. In calendar 2020, CHFFA closed two loans totaling approximately $2.8 million. However, the goals for calendar year 2020 were projected off historical data that ended December 31, 2019 without considering the economic uncertainty relating to the COVID-19 pandemic that began in March 2020.

According to the U.S. Bureau of Economic Analysis[2], in spite of the ongoing COVID-19 pandemic, the United States gross domestic product (GDP) increased 4.3% in the 4th quarter of 2020, while California increased by 3.8%. However, on an annual basis, California's GDP dropped 2.8% from the prior year. In addition, at the end of calendar year 2020 and the beginning of calendar year 2021, although CHFFA experienced greater interest in HELP II loans from potential borrowers, only two loans closed in calendar year 2020. With that in mind, CHFFA set the following goals for calendar year 2021 that reflect both the continued uncertainty in the economy and the four currently approved HELP II loans.

- Close at least 6 loans (200% increase from 2020)
- Close at least $6 million in loans (114% increase from 2020)

[2] https://www.bea.gov/news/2021/gross-domestic-product-state-4th-quarter-2020-and-annual-2020-preliminary