CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)

2021 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. While the HELP program was successful in fulfilling its mission, the 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 The HELP program made 39 loans totaling $5.7 million and was superseded by the HELP II Loan Program (HELP II) in 1995.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 ensure HELP II created 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. Other eligibility requirements include, but are not limited to, evidence of fiscal soundness and ability to repay the loan.

The following chart shows the general progression of the programmatic changes through 2021.

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]
2021	$2,000,000[2]	$40 million	2%[3]	20 years[4]

In July 2021, in order to improve the overall competitiveness and stability of the HELP II Program, the Authority approved, among other things, increasing the maximum cumulative loan amount to $2 million[2] to finance real property acquisition, construction or renovation, and equipment and furnishing acquisition loans, and the maximum annual gross revenue eligibility requirement to $40 million for small facilities.

The mission of both programs remains the same, to provide low-interest rate loans 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.

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

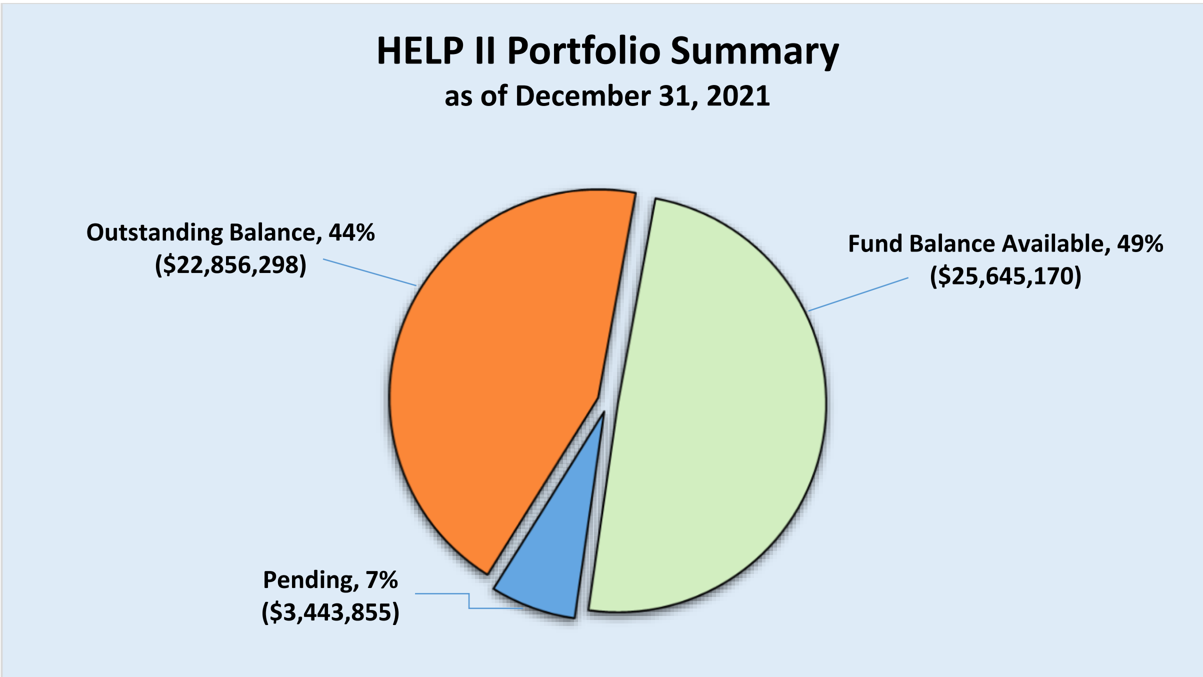
[2] Maximum loan amount for refinancing loans remained at $1,000,000.

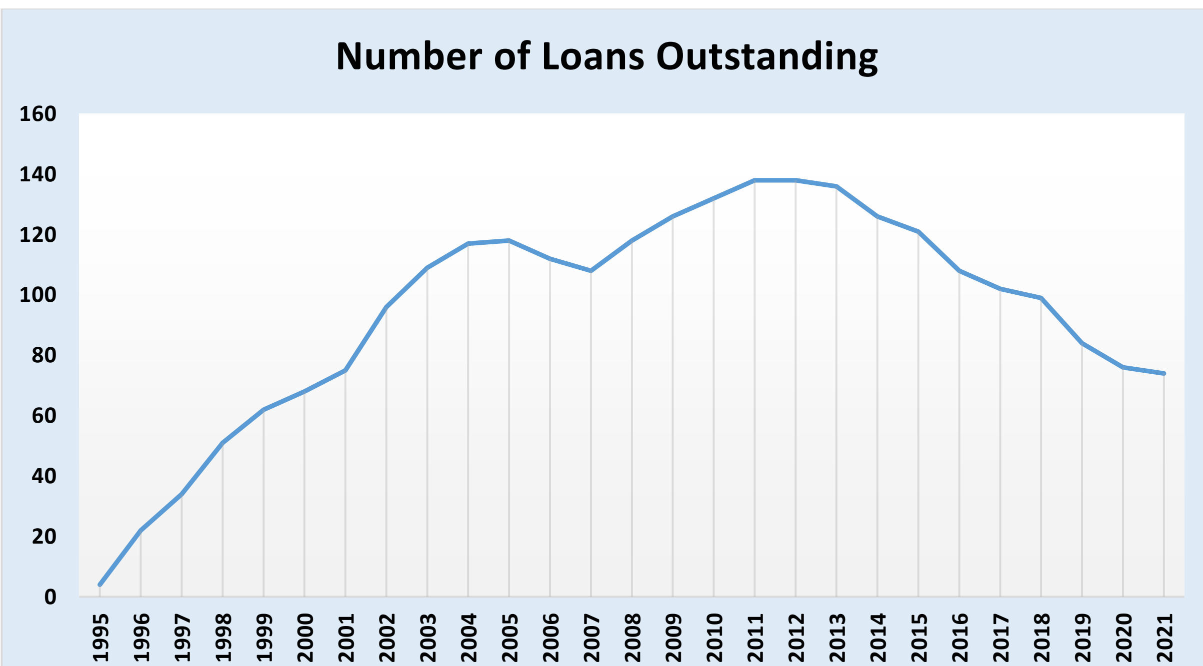
[3] Interest rate for refinancing loans remained at 3%.

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

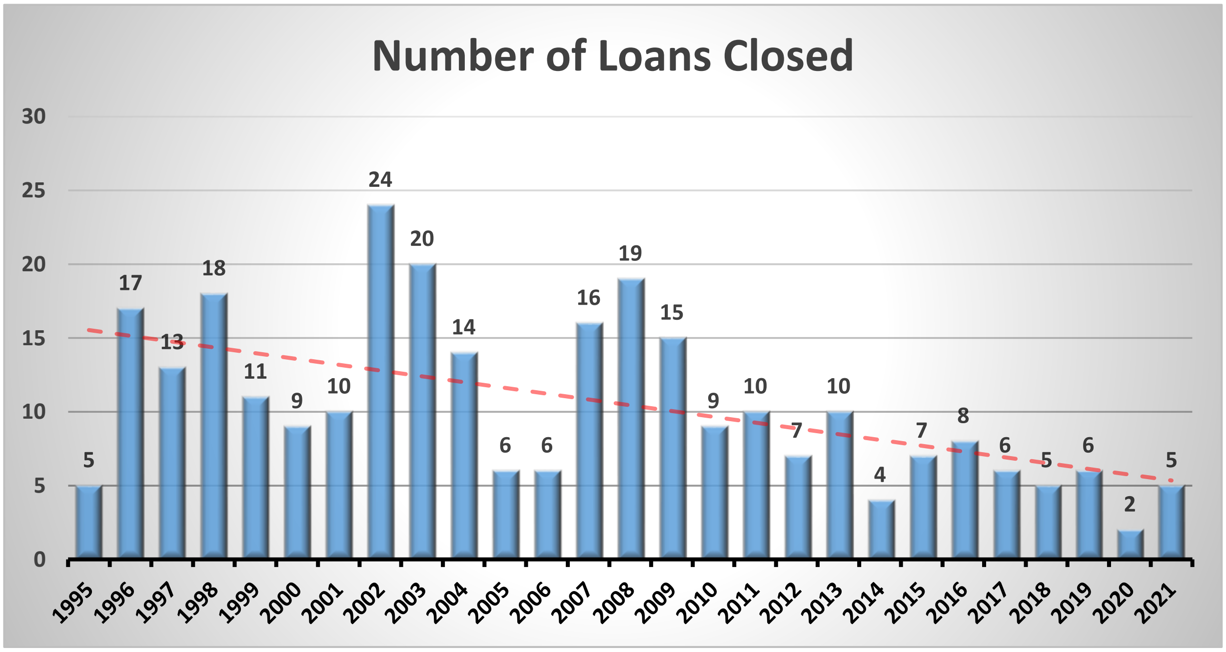
Portfolio

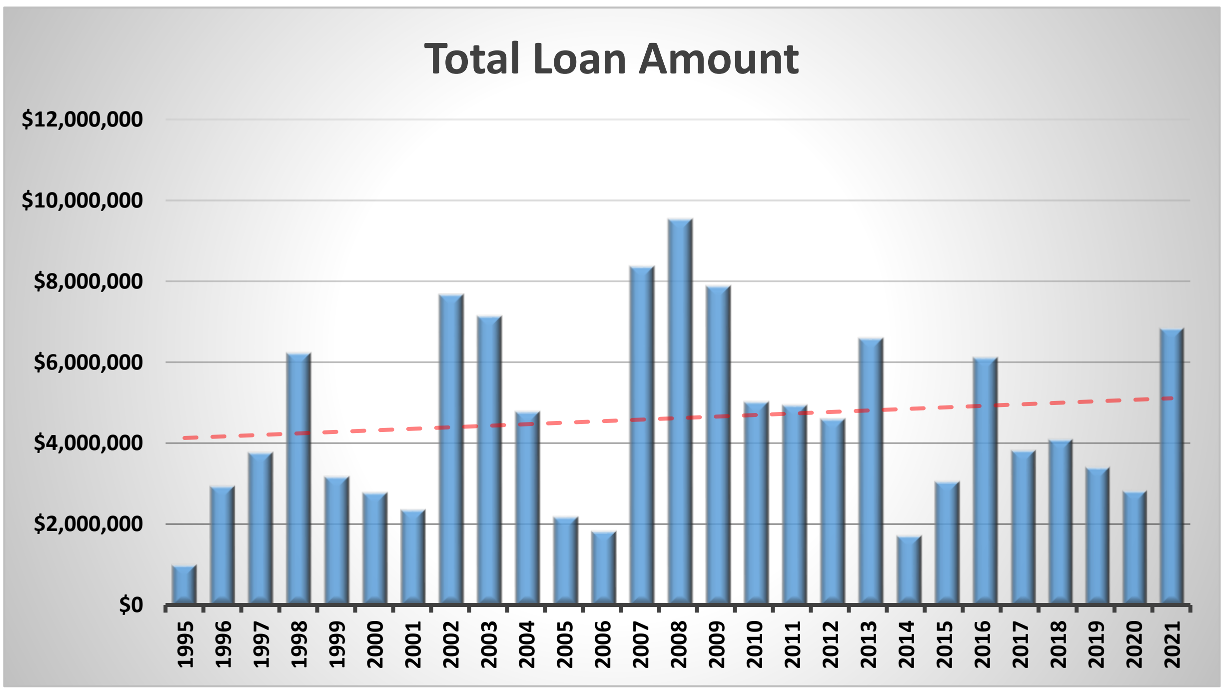
Since 1995, CHFFA has issued 282 loans for an aggregate total of $124.7 million to 183 health facilities with a 0% default rate. As of December 31, 2021, there were 74 active loans with a total outstanding amount of approximately $22.9 million and a total Program portfolio amount of approximately $51.9 million.





The following graphs provide a synopsis of HELP II as a whole, from 1995 through 2021.

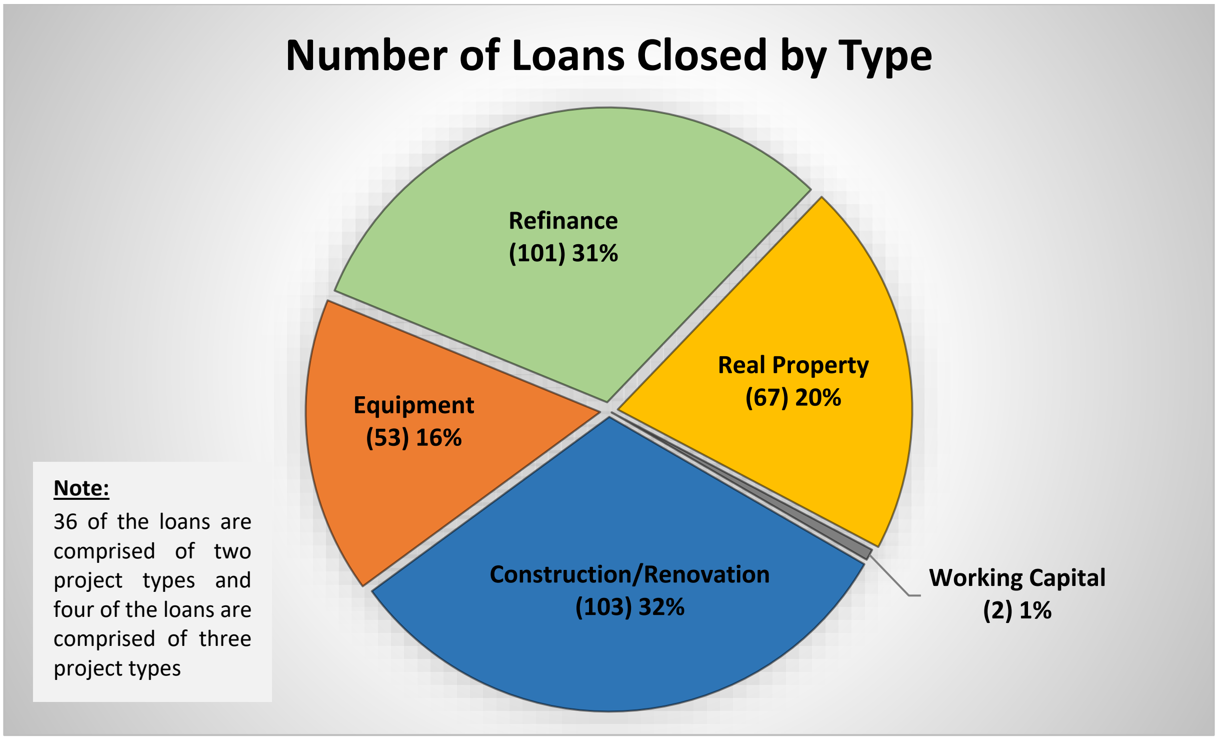


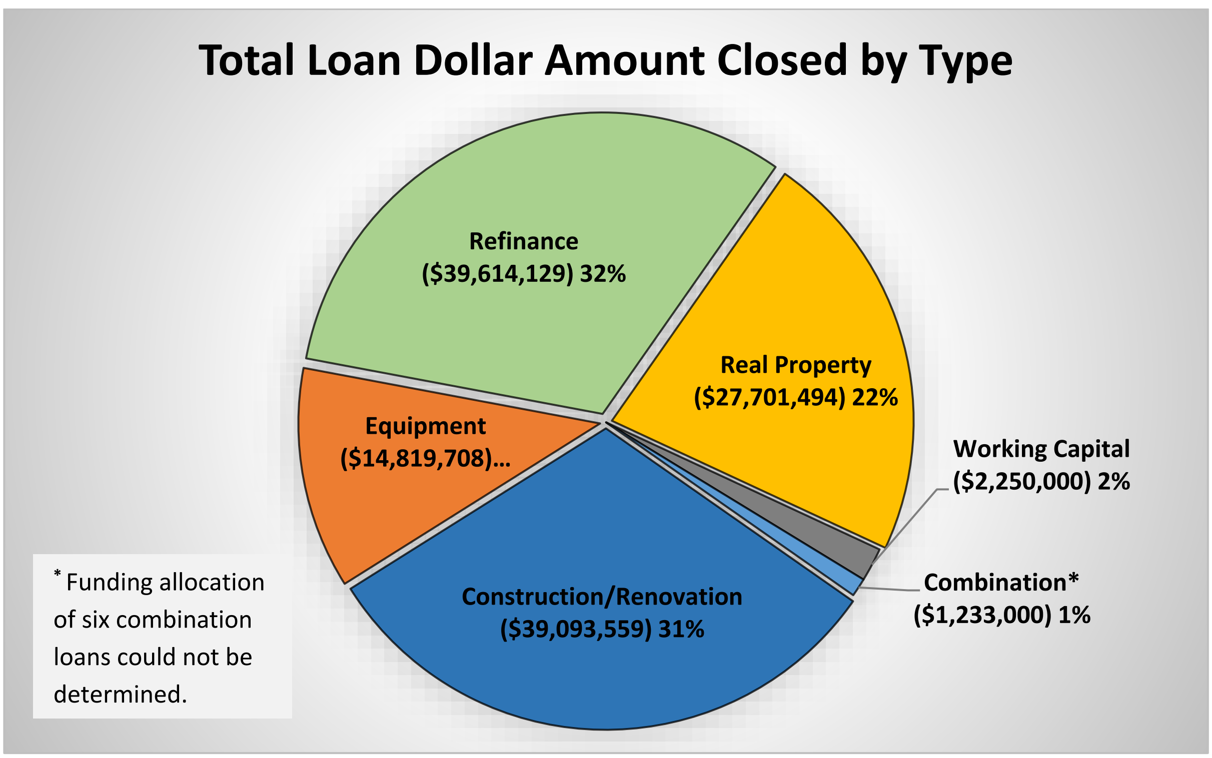


Over the course of HELP II's history, the number of loans closed per year has exhibited a decreasing trend while the total dollar amount of loans closed each year has experienced a slightly increasing trend. The diverging trends of these two graphs indicates that the total loan amount closed each year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

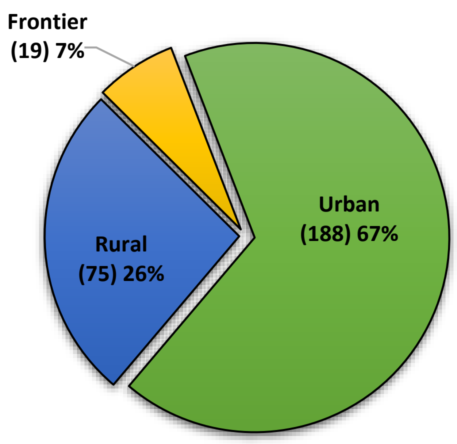
- Average number of loans closed per year: 10
- Average total loan amount closed per year: $4,618,959

The charts below show the overall breakdown of the types of loans HELP II has funded from 1995 to 2021. Throughout the history of HELP II, construction/renovation projects and refinancings have been the most prevalent, but these charts display a healthy mix of all project types.



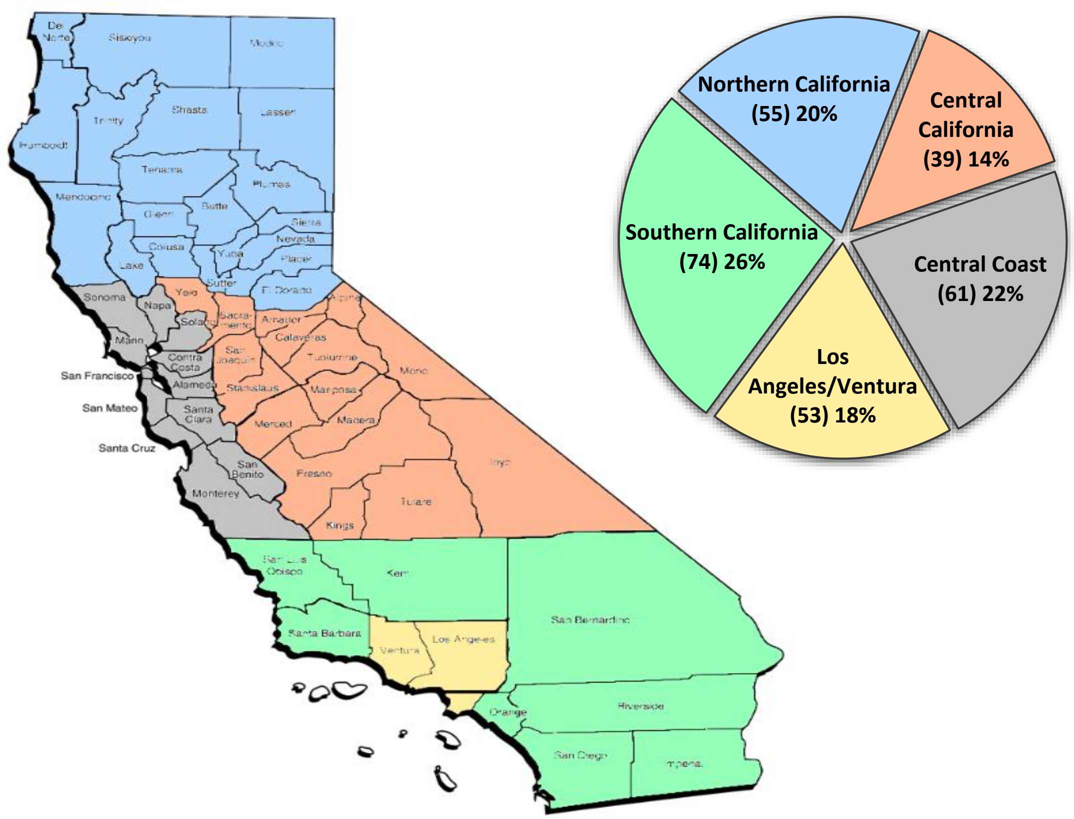


Loans by MSSA[1] Designation



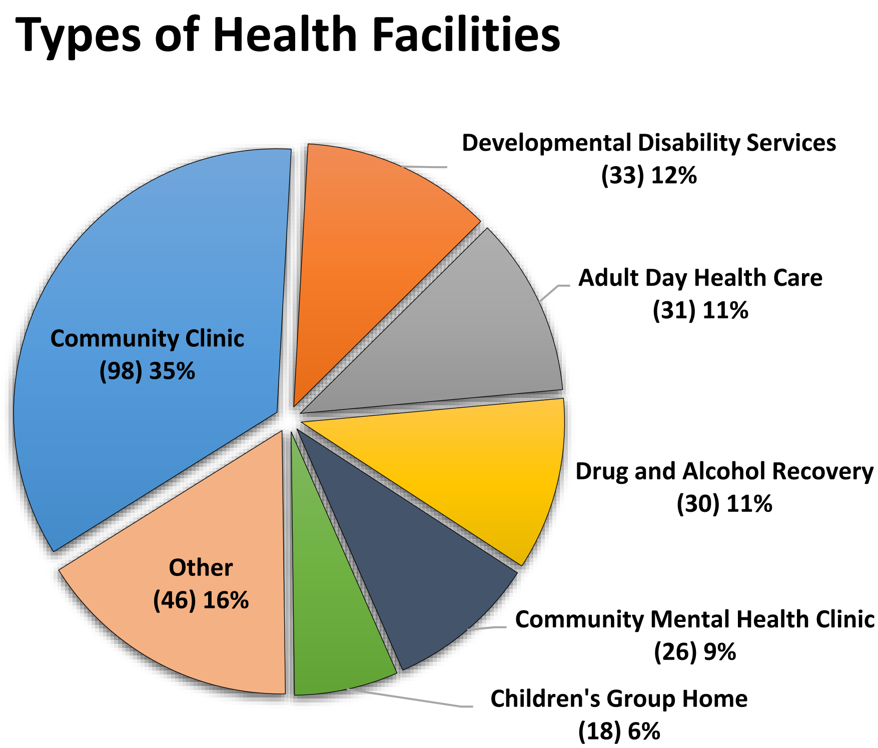
Likewise, looking at the localities from where HELP II borrowers have come, there is a robust array, measured both by MSSA[1] designation and by geographic region. From the chart to the left, about one in three HELP II loans closed are in a location designated as rural or frontier. From the chart below, 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.

Loans by Geographic Location



[1] Medical Service Study Area (MSSA) designations are defined by the California Healthcare Workforce Policy Commission within the California Department of Health Care Access and Information 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 with a population 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	Group Home
Acute Psychiatric Hospital	Health Care District
Adult Residential Facility	Helicopter Medical Evaluation Firm
Adult Transitional Program	Indian Clinic
Chronic Dialysis Clinic	Intermediate Care Facility
Community Care Facility	Retirement Center
Community Work Activity Program	Skilled Nursing Facility
Foster Family Agency	

Summary of Calendar Year 2021 Financings

In 2021, the Authority approved four HELP II loans totaling $5,350,000, and closed five HELP II loans totaling $6,840,000. The following provides a summary of the five HELP II loans that closed in 2021.

San Benito Health Care District (San Benito County)

$2,000,000, 2%, 20 years

Loan proceeds were used to finance the replacement of a nearly 50,000 square-foot roof to prevent potential disruptions and shut-downs to a number of services at the hospital as well as for other remodeling needs.

Dientes Community Dental Care (Santa Cruz County)

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

Loan proceeds were used to finance the construction of a 5,600 square-foot, single-story, solar-powered, state-of-the-art, dental clinic to serve children, adults and seniors. This clinic was part of a collaborative effort to bring affordable housing and healthcare services to the Live Oak area of Santa Cruz County.

Santa Cruz Community Health Centers (Santa Cruz County)

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

Loan proceeds were used to finance the construction of a 20,000 square-foot medical facility. This clinic was part of a collaborative effort to bring affordable housing and healthcare services to the Live Oak area of Santa Cruz County.

Community SeniorServ (Orange County)

$1,490,000, 2%, 20 years

Loan proceeds were used to finance the purchase of a four-unit facility, three units of which Community SeniorServ was already leasing for their adult day health care center, and a fourth that expanded its administration space.

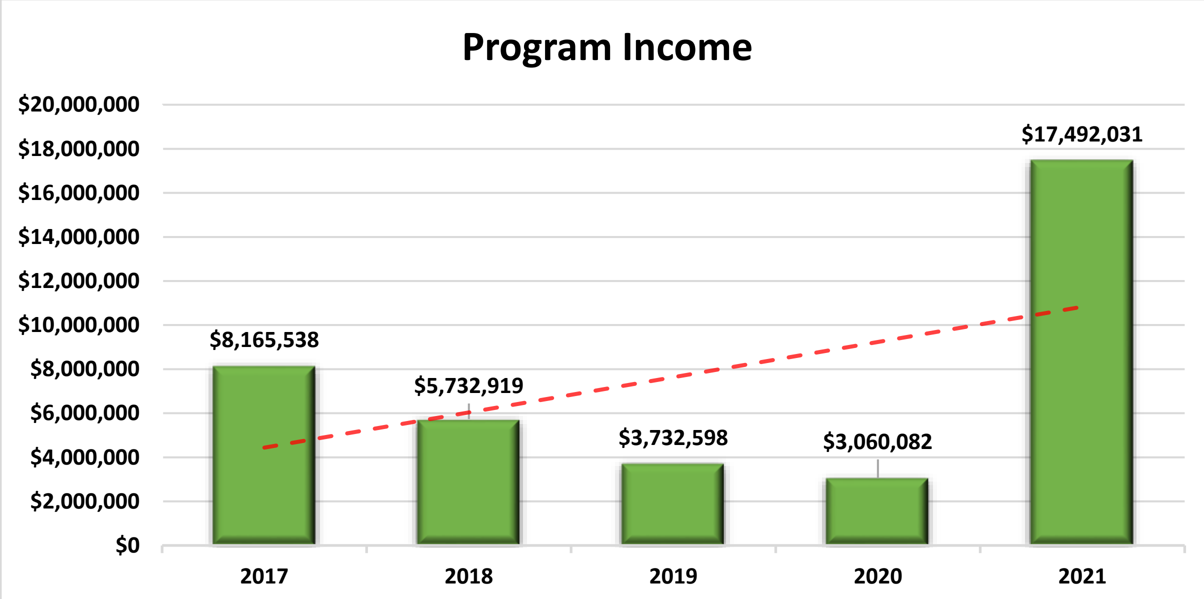
Gateway Center of Monterey County (Monterey County)

$350,000, 3%, 7 years

Loan proceeds were used to refinance an outstanding bank loan, which had a balloon payment due in December 2025.

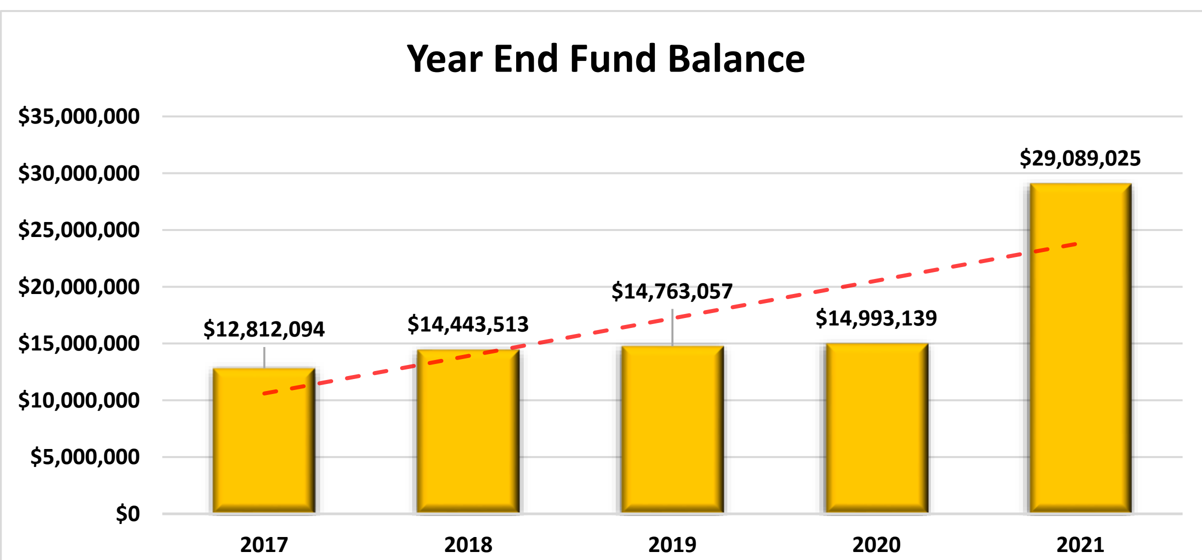
Five-Year Trends

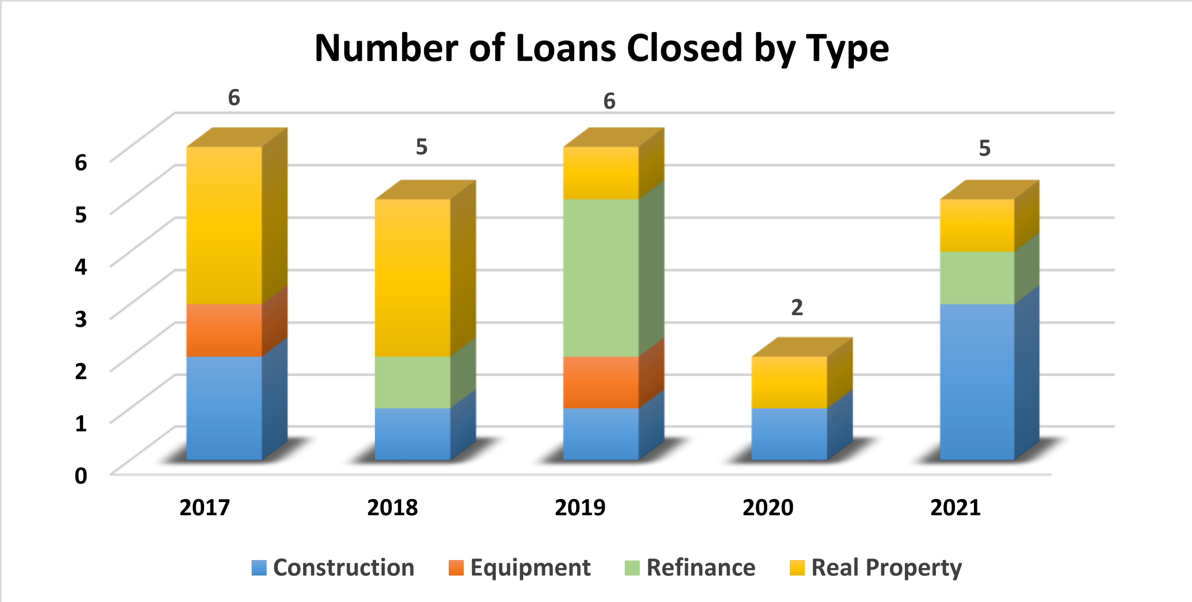
The following charts take a more focused look at the past five years, from 2017 through 2021.



Program income includes principal and interest payments in addition to interest earned on the HELP II fund balance and application, loan closing, and late payment fees (there are no expenses taken out of the fund). The Program Income chart shows a decreasing trend from 2017 – 2020 with a sudden increase in 2021. This increase in 2021 was mainly due to about $10.2 million being added back into the HELP II fund balance with the sunset of the Lifeline Grant Program and several borrowers repaying the principal balance of their loans early. HELP II received about $5.2 million in principal repayments and earned nearly $604,000 in interest payments on 74 outstanding loans in 2021.

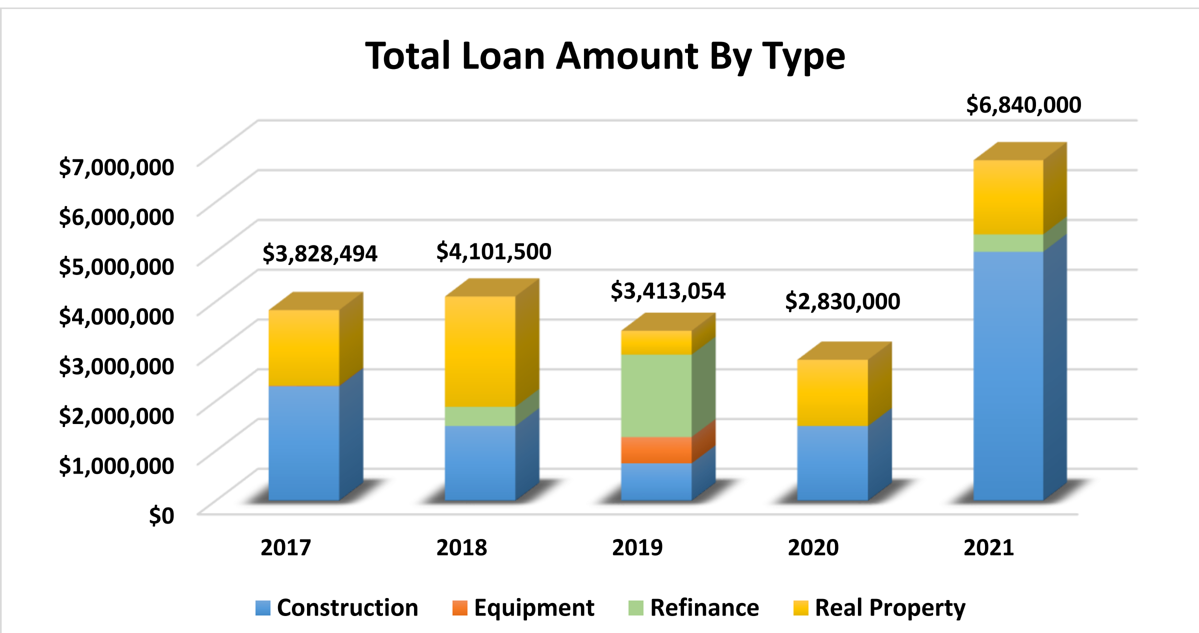
The Year End Fund Balance chart below shows a slightly increasing trend from 2017 to 2020 with the same sharp increase in 2021. This increasing trend paired with the increasing trend from the Program Income chart during this same time period indicates that the Program income tends to be greater than the amount loaned out in a given year.

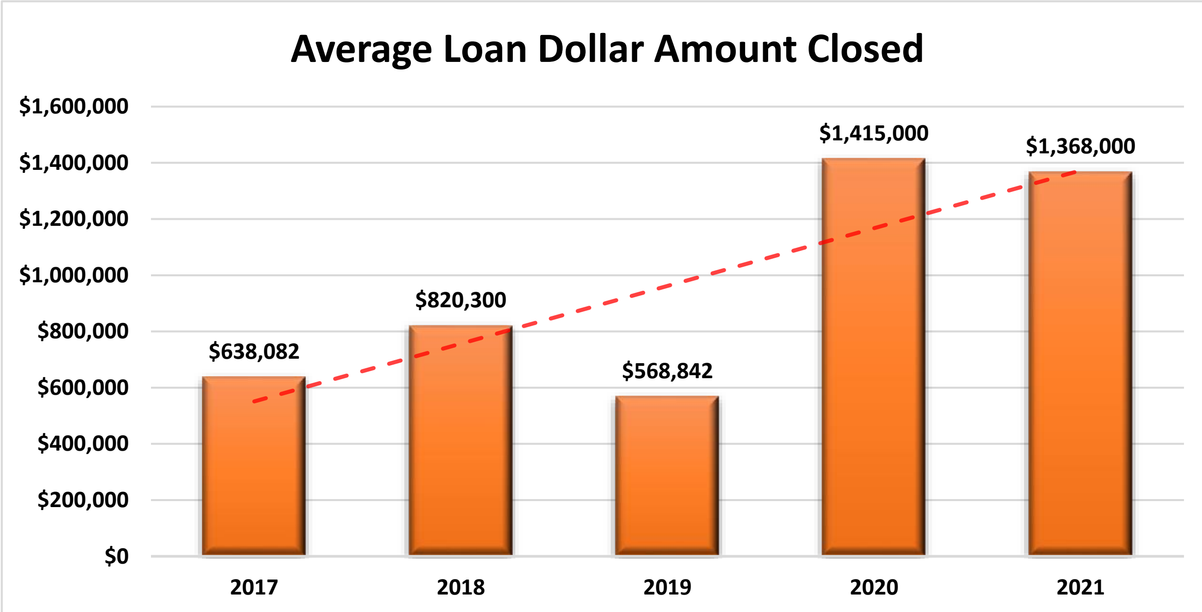




In the last five years, HELP II has closed 24 loans totaling about $21 million, and over time, the make-up of those loans has fluctuated. In particular, the most utilized loans were real property acquisition loans in 2017 and 2018, refinancing loans in 2019, and construction loans in 2021. Overall, this exhibits a strong interest in expansionary projects.

The chart below illustrates that construction projects required greater funding amounts per project than their real property acquisition counterparts. However, as observed from the chart above, in 2021, there was a clear shift away from real property loans into construction loans. This suggests that there are currently deterrents for real property acquisitions or benefits of construction loans that may not have been as prominent as in earlier years.





The graph above illustrates that 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, ten loans were over $1 million during these five years, four of which closed in calendar year 2021. These loans in excess of $1 million further imply the growing demand for larger funding amounts.

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

- Average program income: $7,636,634
- Average year-end fund balance: $17,220,166
- Average number of loans closed: 5
- Average amount closed per loan: $962,045
- Average total amount closed: $4,202,610

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 ineligible 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: 6
- Total Number of Loans Deferred: 12
- Total Amount Deferred: $111,817.35
- All borrowers requested to defer the maximum of three months

Program Goals for Calendar Year 2022

In the 2020 HELP II Annual Report, CHFFA set goals for calendar year 2021 of closing at least six loans and closing at least $6 million in loans. In calendar year 2021, CHFFA closed five loans totaling approximately $6.8 million, which is one loan short of the goal, but exceeded the dollar amount goal by $800,000.

According to the U.S. Bureau of Economic Analysis[2], in spite of the ongoing COVID-19 pandemic, the United States real gross domestic product (GDP) increased 2.3% in the 3rd quarter of 2021, while California's increased by 2.7%, on an annual basis. With that in mind, CHFFA set the following goals for calendar year 2022 that reflect the continued uncertainty in the economy.

- Close at least six loans (20% increase from 2021)
- Close at least $7.5 million in loans (10% increase from 2021)

Additionally, CHFFA staff is looking into changing the parameters for the approval of working capital loans, which could lead to the possibility of recommending more working capital loans to the CHFFA board for approval. Staff have received multiple inquiries into those types of loans.

[2] https://www.bea.gov/news/2021/gross-domestic-product-state-3rd-quarter-2021