CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY ("Authority")

HELP II Loan Program

April 27, 2017

Resolution No. 2017-05

Executive Summary

PURPOSE OF THE REQUEST:

Authority staff recommends extending programmatic changes made to the HELP II Loan Program (the "Program"), approved at the Authority's April 2015 meeting, for an additional two years through April 30, 2019. In addition, staff recommends changes on payment method and schedule.

Staff recommends the Authority extend the programmatic changes for the following reasons:

1. Staff has seen an increase in loan volume since the implementation of the changes. The loan volume is detailed below.
2. Proposed or possible changes at the Federal level, such as modifications to the Affordable Care Act and spending cuts that support the Medi-Cal program, may negatively impact potential borrowers by increasing their operating costs. Also, the Federal Reserve Board has been raising interest rates, which increases borrowing costs for potential borrowers.

BACKGROUND:

In April 2015, in an effort to increase loan activity, the Authority approved the following changes to the Program for a two-year period based upon feedback from existing and potential borrowers:

1. Loan term was increased from 15 years to 20 years for the financing of real property acquisition, construction, or renovation.
2. The maximum loan amount was increased from $1,000,000 to $1,500,000 to finance larger projects.
3. The interest rate was lowered from 3% to 2% for all loans except refinancings. Refinancing loans remain at 3%.

Staff has evaluated the impact of these changes to the Program. Since April 2015, 12 loans closed totaling $11,465,000 compared to calendar years 2013 and 2014, 10 loans closed totaling $11,363,460. The average loan amount in calendar years 2013 and 2014 were $404,250 and $488,408, respectively. The average loan amount for calendar years 2015 and 2016 were $330,000 and $777,222, respectively.

Of the 12 loans that closed since the changes were implemented, nine have closed at the 2% rate, totaling $9,795,000. Seven of these loans closed in calendar year 2016, totaling $6,995,000 and the remaining two loans closed in calendar year 2017. In the previous four years, the average rate of lending was $2.8 million per year.

In addition to taking advantage of the 2% rate, four of the nine loans borrowed more than $1,000,000 and one of these loans was granted an exception and exceeded the $1,500,000 maximum.

As a result of the changes, more borrowers have been able to expand services due to the cost savings. For example, HOPE Homes was able to purchase three group homes at the 2% rate versus conventional financing at 6-8% rates. Also, Family Care Network was approved for $1,300,000 to construct a new facility, which included solar panels to reduce their operating costs and protect against rising energy costs.

Please refer to Exhibit 1 for an itemization of the 12 closed loans.

Staff worked with Sperry Capital, one of the Authority's financial advisors, to evaluate whether the Program's fund could sustain an extension of the existing program terms. Sperry Capital previously evaluated the Program's loan fund balance and loan volume for the initial programmatic changes made in 2015. Sperry Capital's new examination of the Program's fund assumes that all future loans will be at a 2% interest rate with a 20 year term.

As of December 31, 2016, the Program's fund had total assets of $57.1 million divided between cash and loans as follows:

Cash	$28.7 million
Outstanding Loans	28.4 million
Total	$57.1 million

CHFFA's loan portfolio receives roughly $4.5 million per year in loan principal and interest payments. It is the break-even point of HELP II lending, meaning that at this volume of lending, CHFFA's cash balance will remain at approximately $28 million.

Sperry Capital's findings include:

- Interest rates are rising and incremental increases are expected to continue.
- HELP II loan volume in calendar year 2016 totaled $6,995,000, exceeding loan volume in previous years.
- If the annual loan volume increased to $8 million, for instance, the income from additional loan principal and interest payments will increase to support continued lending at this volume. Eventually, the cash balance, given these constraints, would never dip below $8 million.
- To fully commit the Program cash balance, lending would need to exceed $8 million. For example, at $9 million in annual loan volume, $28 million will be lent out by 2025.
- The Authority should maintain the minimum cash balance of $6,000,000, as a mechanism to safeguard the Program against unanticipated demands. Alternatively, the Authority could limit new loan volume to the amount of cash generated by loan portfolio repayments.
- Sperry Capital concludes that given the goals of the Program, these changes, which appear to drive loan volume, are sensible and sustainable.

ADDITIONAL CHANGES:

In addition to extending the loan terms through April 30, 2019, staff requests making permanent changes to loan payment method and schedule.

As previously discussed in Authority meetings, the Electronic Payment System is now available to all borrowers. Borrowers can choose to set up a recurring monthly payment or make monthly one-time loan payments through the Electronic Payment System. Authority staff recommends all borrowers with new loans be automatically enrolled in the Electronic Payment System, unless the borrower elects to opt out, to reduce the number of late payments, lost checks, and payment date discrepancies.

Authority staff also recommends changes to the payment date schedule. Currently, payments are due on the 1st of each month with a 15 day grace period. Staff recommends, for any new loans, allowing the borrower to choose either the 1st or the 15th of the month as its payment due date with a 10 day grace period. However, for new loans where the borrower elects to opt out of the Electronic Payment System, payments will be due by the 1st of each month and the grace period and the one-time waiver for late payments will be eliminated.

STAFF RECOMMENDATION:

Staff recommends approval of Resolution No. 2017-05 to extend the April 2015 programmatic changes for a period of two years, through April 30, 2019, and to incorporate the additional loan payment changes to the HELP II loan documents.

EXHIBIT 1

HELP II loans closed since the April 2015 programmatic changes:

Borrower	County	City	Date Approved	Approved Amount	Interest Rate	Purpose of Loan
M.E.R.C.I.	Los Angeles	Los Angeles	28-May-15	900,000	2%	New Construction
Kids & Families Together	Ventura	Ventura	28-May-15	440,000	3%	Refinancing
Lomi School Foundation	Sonoma	Santa Rosa	30-Jul-15	330,000	2%/3%[1]	Property Purchase and Refinancing
Family Care Network, Inc.	San Luis Obispo	San Luis Obispo	25-Feb-16	1,300,000	2%	New Construction
Advent Group Ministries, Inc.	Santa Clara	Morgan Hill/ San Jose	25-Feb-16	430,000	3%	Refinancing
Yolo Family Service Agency	Yolo	Woodland	24-Mar-16	390,000	2%/3%[1]	New Construction and Refinancing
Safe Refuge	Los Angeles	Long Beach	26-May-16	1,000,000	3%	Refinancing
Petaluma Health Center	Sonoma	Petaluma	4-Aug-16	2,000,000	2%	New Construction and Equipment
TLC Child and Family Services	Sonoma	Sebastopol	4-Aug-16	675,000	2%	Property Purchase
Plumas Hospital District	Plumas	Quincy	4-Aug-16	1,500,000	2%	Working Capital
Home Ownership for Personal Empowerment, Inc.	Los Angeles	Torrance	22-Sep-16	1,500,000	2%	Property Purchase
Interim, Inc.	Monterey	Monterey	22-Sep-16	1,000,000	2%	New Construction

(1) Indicates that loan has both refinancing and non-refinancing components.

RESOLUTION NO. 2017-05

RESOLUTION OF THE
CALIFORNIA HEALTH FACILTIES FINANCING AUTHORITY

APPROVING PROGRAMMATIC CHANGES FOR
THE HELP II LOAN PROGRAM

WHEREAS, the California Health Facilities Financing Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Health Facilities Financing Authority Act (the "Act") to provide secured or unsecured loans to participating health institutions to finance or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the "Program") to issue loans to participating health institutions that meet the eligibility guidelines of the Program; and

WHEREAS, the Authority desires to adjust aspects of the existing Program with the purpose of enhancing access under the Program;

NOW, THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority as follows:

Section 1. The Authority hereby amends the Program to increase the maximum loan term from 15 years to 20 years to finance property acquisition, construction, or renovation until April 30, 2019.

Section 2. The Authority hereby amends the Program to increase the maximum cumulative loan amount from $1,000,000 to $1,500,000 to finance real property acquisition, construction or renovation, and equipment acquisition until April 30, 2019.

Section 3. The Authority hereby amends the Program to decrease the interest rate from 3% to 2% to finance real property acquisition, construction or renovation, and equipment acquisition. The 2% interest rate shall remain in effect until April 30, 2019 and will be reset to 3% thereafter for Program loans approved after April 30, 2019.

Section 4. The Authority shall establish a minimum floor of $6,000,000 for the Program cash balance, as a mechanism to safeguard the Program against unanticipated demands. If the Program's cash balance decreases to the minimum floor, staff may not consider loan applications which request funds in excess of a $1,000,000 cumulative loan amount without Authority approval [*or staff will limit new loan volume to the amount of cash generated by loan portfolio repayments*].

Section 5. The Authority shall require all borrowers with new Program loans to be automatically enrolled in the Electronic Payment System to manage and pay their loans unless the borrower elects to opt out. The Authority shall also require borrowers with new Program loans to choose either the 1st or the 15th of the month as the borrower's payment due date with a 10 day grace period. However, for new Program loans where the borrower elects to opt out of the Electronic Payment System, payments will be due by the 1st of each month and the 10 day grace period and the one-time waiver for late payments will be eliminated.

Section 6. All other aspects of the Program remain unchanged.

Date Approved: ____________________________