CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY ("Authority")

Amendment to Resolution No. 2017-05

HELP II Loan Program

April 26, 2018

PURPOSE OF THE REQUEST:

Authority staff recommends amending certain programmatic changes made to the HELP II Loan Program (the "Program"), approved at the Authority's April 27, 2017 meeting.

BACKGROUND:

In April 2015, in an effort to increase loan activity, the Authority approved Resolution No. 2015-05 (the "2015 Resolution", attached as Exhibit 1) which made programmatic changes to the Program based upon the analysis of the Program by Sperry Capital ("Sperry"), one of the Authority's financial advisors, and also feedback from existing and potential borrowers. The program changes were as follows

1. Loan terms were extended 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 million to $1.5 million to finance expansion projects.

3. The interest rate was lowered from 3% to 2% for all loans except refinancings. Refinancing loans remained at 3%.

4. A minimum $6 million cash balance floor was established as a mechanism to safeguard the Program against unanticipated demands. If the Program's fund balance decreases to the minimum floor, staff may not consider loan applications which request funds in excess of $1 million cumulative loan amount without Authority approval.

All other aspects of the Program remained unchanged. Section 4 of the 2015 Resolution provided direction in the event that the fund balance decreased to an amount less than $6 million, but did not take into consideration what was to occur if the fund balance later increased to an amount more than $6 million. The 2015 Resolution also did not include a sunset date.

In April 2017, staff and Sperry reevaluated the effects of the programmatic changes. As a result of the changes implemented by the 2015 Resolution, loan volume increased from previous years and it was determined more borrowers were able to expand services due to cost savings.

Sperry concluded that given the goals of the Program, the implemented changes, which appeared to drive loan volume, were sensible and sustainable. As such, the Authority approved Resolution No. 2017-05 (the "2017 Resolution", attached as Exhibit 2, and together with the 2015 Resolution, the "Resolutions"). The program changes under the 2017 Resolution were as follows:

1. Extended the programmatic changes exhibited in Sections 1, 2, and 3 of the 2015 Resolution for a period of two years, expiring in April 2019.

2. Requiring all borrowers with new Program loans to be automatically enrolled in the Electronic Payment System to manage and pay their loans, unless a borrower otherwise elects to opt out.

At the time of the Authority's approval of the 2015 Resolution, the cash balance of the Program was $23 million. At the time of the approval of the 2017 Resolution, the cash balance of the Program was nearly $29 million.

However, shortly after the approval of the 2017 Resolution, Senate Bill 97 authorized a $20 million transfer from the Program for the Lifeline Grant Program in July 2017. Most recently, in January 2018, another $2 million was transferred from the Program to fund the Emergency HELP program.

The Program, for the first time in its 23 year history, fell below a cash balance of $6 million. In January 2018, staff reported to the Authority that with the transfer of the $2 million for the Lifeline Grant Program and the amount of Program loan funds that were encumbered for disbursement, the cash balance of the Program was approximately $4.2 million.

Section 4 of the 2017 Resolution indicates that if the Program cash balance decreases to the minimum floor, staff may not consider loan applications over $1 million. The language fails to provide staff guidance as to the duration of time for the loan limit restriction or instruction as to when and if the loan limit restriction could be lifted.

For example, as mentioned previously, January 1, 2018 reflected a cash balance of approximately $4.5 million. February 1, 2018 and March 1, 2018 also reflected cash balances under the $6 million floor, approximately $4.9 million and $5.3 million, respectively. During that time period, no new loan applications were received. Additionally, over this three-month period, three approved loans were fully disbursed and two approved loans surrendered their disbursement. As a result, the cash balance for the beginning of April 1, 2018 is nearly $9 million.

	1/1/2018	2/1/2018	3/1/2018	4/1/2018	
Cash Balance	$12,800,000	$12,062,394	$11,358,957	$11,657,944	
	To Disburse				
Yolo Family Services Agency	$100,000	$100,000	$100,000	$100,000	
Interim, Inc	900,000	900,000	216,443	0	fully funded
Petaluma Health Center	500,000	500,000	500,000	500,000	
Petaluma Health Center	190,000	190,000	190,000	190,000	
Mendocino District Hospital	1,500,000	1,500,000	1,500,000	0	resolution withdrawn
Contra Costa ARC	1,200,000	0	0	0	fully funded
Creative Alternatives	385,000	385,000	0	0	fully funded
MCHD dba Trinity Hospital	1,500,000	1,500,000	1,500,000	0	resolution withdrawn
Emergency HELP Program*	2,000,000	2,000,000	2,000,000	2,000,000	
TOTAL to disburse	**8,275,000**	**7,075,000**	**6,006,443**	**2,790,000**	
Remaining Net Cash**	**$4,525,000**	**$4,987,394**	**$5,352,514**	**$8,867,944**	
* any remaining funds not disbursed will be returned to the Program fund on June 1, 2018					
** cash balance less pending disbursements					

From staff's perspective, the 2017 Resolution does not provide clear direction given the current cash balance. Staff does not believe that falling below the $6 million cash balance floor triggers a negative financial threshold for the Program. Sperry has also evaluated the effects of the $6 million floor and has concluded that because the Program has no program expenses and no defaults to date, the cash flow repaid principal and interest is a consistent funding stream for the Program fund. The Program can remain solvent indefinitely as long as loan repayments continue. The cash balance can be regarded as surplus.

Sperry also supports maintaining the $1.5 million loan limit for expansion projects. In evaluating the Program since the provision was put in place in the 2015 Resolution, Sperry believes that the higher loan limit opened the door for new and previous borrowers to expand services.

The minimum cash floor was put in place at a time when the Program's cash balance was over $20 million and at that time Sperry's analysis concluded that the Program would approach the floor in 2025. At the time of the initial analysis in 2015, the Authority and Sperry did not anticipate $22 million would be withdrawn from the Program. Currently, the cash balance of the Program is significantly smaller and given the proximity to the $6 million floor, it is staff's intention to provide clarity to that provision of the Resolutions so that staff, moving forward, has the ability to clearly identify the HELP II loan terms that are available for borrowers.

Therefore it is staff desire to amend the 2017 Resolution to delete Section 4 as the current language does not clarify the period of time of the loan limit nor does it provide flexibility for staff to evaluate the cash balance and make a determination if it could support a borrower's need for a larger loan.

The 2017 Resolution will be revisited in April 2019. At that time staff and Sperry will reassess and reevaluate each of the programmatic changes, including the effects of the deletion of Section 4, and report to the Authority of the findings.

STAFF RECOMMENDATION:

Staff recommends approval of the Amendment to Resolution No. 2017-05 to delete Section 4 of the 2017 Resolution, which references a $6 million cash balance floor.

For your reference, staff has included the following documents:

- **Exhibit 1 –** Resolution No. 2015-05
- **Exhibit 2 –** Resolution No. 2017-05

RESOLUTION NO. 2015-05

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:

<u>Section 1.</u> 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.

<u>Section 2.</u> 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.

<u>Section 3.</u> 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, 2017 and will be reset to 3% thereafter for Program loans approved after April 30, 2017.

<u>Section 4.</u> The Authority shall establish a minimum floor of $6,000,000 for the Program fund balance, as a mechanism to safeguard the Program's fund balance. If the Program's fund 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.

<u>Section 5.</u> All other aspects of the Program remain unchanged.

Date Approved: April 30, 2015

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:

<u>Section 1.</u> 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.

<u>Section 2.</u> 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.

<u>Section 3.</u> 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.

<u>Section 4.</u> 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: April 27, 2017

AMENDMENT TO RESOLUTION NO. 2017-05

**RESOLUTION OF THE
CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
AMENDING PROGRAMMATIC CHANGES TO
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, on April 27, 2017, the Authority adopted Resolution No. 2017-05 (the "Bond Resolution"), authorizing certain programmatic changes to the Program with the purpose of enhancing access under the Program; and

WHERAS, Section 4 of the Bond Resolution establishes a minimum cash balance floor for the Program; and

WHEREAS, staff recommends the deletion of Section 4 of the Bond Resolution;

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

<u>Section 1.</u> The Bond Resolution is hereby amended to delete Section 4 in its entirety.

<u>Section 2.</u> All other aspects of the Bond Resolution shall remain unchanged.

<u>Section 3.</u> This Resolution shall take effect from and after the date of adoption.

Date Approved: ___________________________