

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (“Authority”)

HELP II Loan Program Financial Analysis

July 30, 2015

Executive Summary

At the February 26, 2015 meeting, the Authority directed staff to analyze the HELP II Loan Program (“Program”) and develop possible additional initiatives given the Program’s robust fund balance of approximately \$24 million.

At the April 30, 2015 meeting, the Authority’s financial advisor, Sperry Capital, discussed the results of its analysis of the Program Fund balance and evaluated the potential consequences of implementing one or more of the suggested initiatives.

In addition, the Authority approved the following programmatic adjustments to the Program to help borrowers improve cash flow:

1. Decreased the interest rate to 2% for two years.
2. Increased the loan term from 15 years to 20 years.
3. Increased the maximum loan amount from \$1,000,000 to \$1,500,000.

At the May 28, 2015, staff presented a Marginal Borrower Program that was designed to attract riskier borrowers to the Program. However, the board requested staff reach out to other underserved markets before considering any new programs.

Staff worked with Sperry Capital to determine various marketing strategies and to evaluate if \$6.5 million can be withdrawn from the Program to establish a CHAMP II without negatively impacting the Program.

For the next 90 days, staff will focus marketing efforts on two industry sectors - Adult Day Services and Mental Health. Staff will reach out to the California Association of Adult Day Services (CAADS) and all of the counties to market the HELP II Loan Program to its members and nonprofit service providers. CAADS was chosen because of its existing relationship with CHFFA on the prior Medi-Cal Bridge Loan Program several years ago. CAADS’ members requested Medi-Cal bridge loans during times of a budget impasse. The mental health non-profit service providers were chosen because of CHFFA’s existing relationship with the counties through the Investment in Mental Health Wellness Grant Program. The counties will be able to provide CHFFA information on the non-profit service providers serving those communities. After the 90 day period, additional industry sectors will be selected for increased marketing efforts.

Sperry Capital has prepared the attached PowerPoint presentation (Exhibit A), which provides an analysis on the effects of the \$6.5 million withdrawal for a CHAMP II program as well as various marketing strategies. Sperry Capital will discuss the results of its analysis at the Authority meeting.

California Health Facilities Financing Authority

July 30, 2015

HELP II Loan Program Financial Analysis



Sperry Capital Inc.
Jim Gibbs, Principal
Martha Vujovich, Principal

Exhibit A

Balance Sheet

□ The balance sheet of the HELP II Loan Program as of July 17, 2015 was:

<i>Assets</i>	
<i>Cash (including interest earned @ 0.25%)</i>	\$25,752,126
<i>Outstanding Loans @ 3%</i>	<u>\$31,810,879</u>
<i>Total Assets</i>	\$57,563,005
<i>Liabilities</i>	
	\$0
<i>Net Assets</i>	<u>\$57,563,005*</u> (includes loans pending)

**unaudited, for information purposes only*

Overview

Can \$6,500,000 surplus funds be withdrawn from HELP II loan program for other purposes (i.e. CHAMP II) and still maintain sufficient funds long term for HELP II under new parameters established May 1, 2015?

- Analyze increase in loan volume
 - ✓ 11 loans originated per year - page 6
 - ✓ 15 loans originated per year - page 7

- Examine marketing strategies and priorities to increase loan volume

History of Loan Volume

- As of December 31, 2014, HELP II Loan Program has provided 244 loans for approximately \$94.5 million since May 1995
- Over the past 8 years, an average of 11.25 loans per year have been originated
- Portfolio has a 0% default rate over the life of the program

Distribution of Loans by Type of Facility

Qualifying Types of Health Facilities	# of Loans 1995-present	% of portfolio by institution type
Acute care hospitals	4	1.63%
Adult day health centers	9	3.66%
AIDS clinics	1	0.41%
Alcoholism recovery facilities	5	2.03%
Blood banks	0	0.00%
Chemical dependency facilities	24	9.76%
Child day care facilities	6	2.44%
Community clinics	77	31.30%
Community mental health facilities	38	15.45%
Community work-activity program	3	1.22%
Development disability facilities	4	1.63%
Diagnostic or treatment centers	13	5.28%
Group homes	16	6.50%
Multilevel care facilities	6	2.44%
Psychiatric facilities	9	3.66%
Public health centers	17	6.91%
Rehabilitation facilities	1	0.41%
Skilled nursing/ intermediate care facilities	11	4.47%
Other	2	0.80%
Total	246	100.00%

**as of July 17, 2015, 2 closed; additional pending*

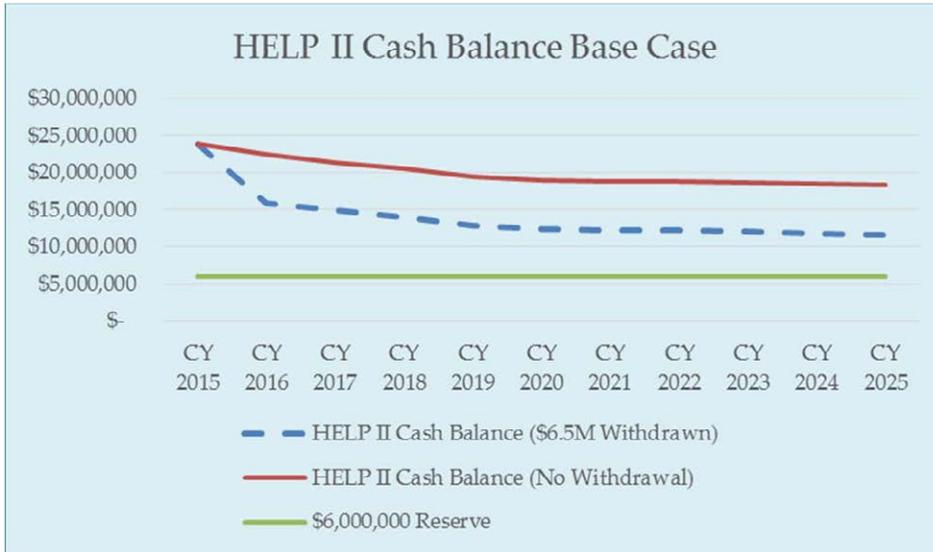


Assumptions and New Loan Parameters as of May 1, 2015

<i>LOAN PARAMETERS as of MAY 1, 2015</i>	
Target loan fund reserve - same	\$ 6,000,000
Maximum loan amount (aggregate per borrower) NEW	\$1,500,000
Interest rate on construction and equipment loans from May 1, 2015 through May 1, 2017 - NEW	2%
Interest rate on refi loans - same	3%
Loan term for real estate (purchase, construction, renovation) - NEW	20 years
Loan term for refinancing - same	15 years
Loan term for equipment – same	5 years
Loan origination fee - same	1.25%
<i>ASSUMPTIONS (based on data from last 8 years)</i>	
Average loan amount	\$643,351
Default rate	0%
% of fund in equipment loans*	15%
% of fund in facility/real property costs*	49%
% of fund in refinancing debt*	37%
Interest earnings on loan fund per year	.25%
Average loans originated/year; loans originated in 2014 = 4	11.25

*based on current loan portfolio

Originate 11 Loans Per Year

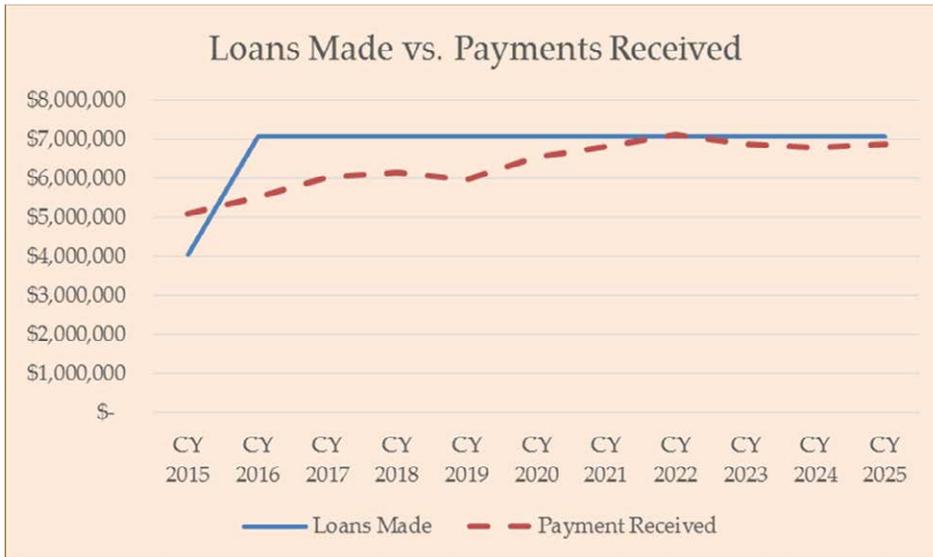


11 loans originated per year

Beg Cash Balance (as of 7/17/2015)	\$25,752,126
Total projected loans for 2015	-\$ 4,051,503
Interest earned .25%/yr	\$ 59,552
Ending balance 12/31/15	\$23,880,430
Withdraw funds 2015	-\$ 6,500,000
Fund Balance end of 2015	\$17,380,430
Fund Balance end of 2025	\$11,592,984

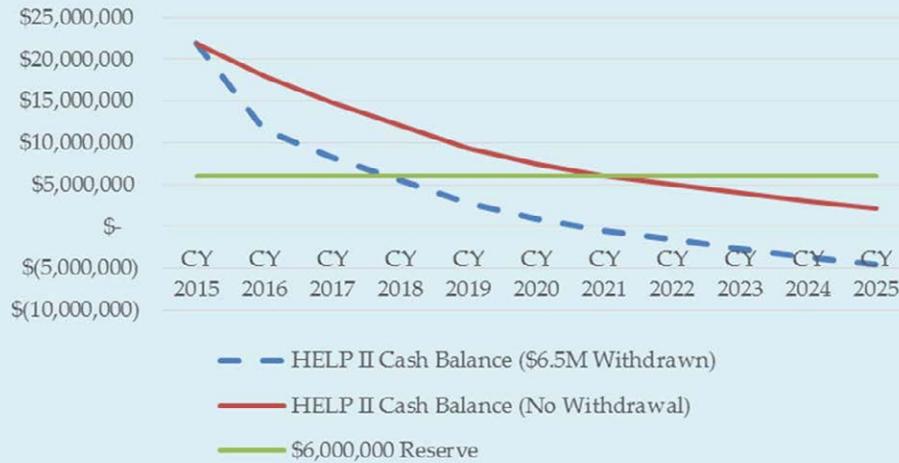
TARGET Reserve of \$6,000,000 is met.

Conclusion: If **11 loans per year** are originated, \$6,500,000 of cash can be withdrawn in 2015 while maintaining at least \$6,000,000 in reserves through 2025.



Originate 15 Loans Per Year

HELP II Cash Balance for 15 Loans Per Year



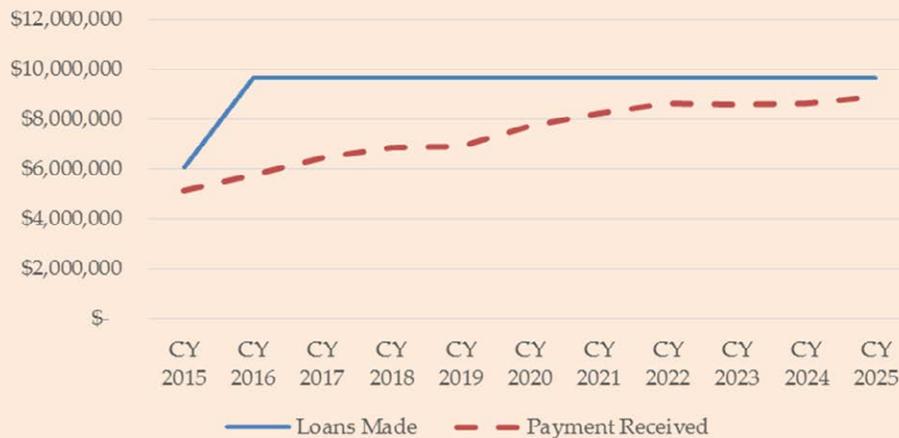
15 loans originated per year

Beg Cash Balance (as of 7/17/2015)	\$25,752,126
Total projected new loans 2015	- \$ 6,060,366
Interest earned .25%/yr	\$ 54,582
Ending balance 12/31/15	\$21,887,414
Withdraw funds 2015	- \$ 6,500,000
Cash Balance end of 2015	\$15,387,414
Cash Balance end of 2021	- \$ 575,431

TARGET Reserve of \$6,000,000 is met only through 2017.

Conclusion: If **15 loans per year** are originated, \$6,500,000 can be withdrawn in 2015. A minimum of \$6,000,000 in reserves can be maintained only through 2017. The cash balance will deplete in 2021.

Loans Made vs. Payments Received



Marketing to Increase Loan Volume

Identify CHFFA targets for the marketing program

- ❑ Direct marketing to facilities: utilize California Office of Statewide Health Planning & Development's (OSHPD) facility list to custom sort a target list of underserved facility types for email blast of HELP II loan program brochure

- ❑ Managing through websites to post information: HELP II loan program
 - OSHPD (for example, CalMortgage is posted)
 - Council of Community Mental Health Agencies (69 members) www.ccmha.org
 - Association of Adult Day Services (172 members) www.caads.org
 - Other associations as necessary