CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HEALTHCARE EXPANSION LOAN PROGRAM II

(HELP II)

2018 ANNUAL REPORT

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TABLE OF CONTENTS

Overview

HELP II is designed to provide small and rural health facilities with financing for capital needs through low cost loans. HELP II became operational in 1995, having superseded the HELP Program that began in 1988.

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 a participating health facility. Other eligibility requirements include, but are not limited to, evidence of fiscal soundness, ability to meet terms of the loan, and no more than $30 million in annual gross revenues (district hospitals and rural health facilities are exempt from this requirement).

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.

Since 1997, the California Health Facilities Financing Authority ("Authority") has approved various programmatic changes to HELP II in response to the ever-changing environments of interest rates, the housing market, and market demand. In April 2015, staff recommended programmatic changes to accommodate larger project costs and increases in the Federal Funds Rate.

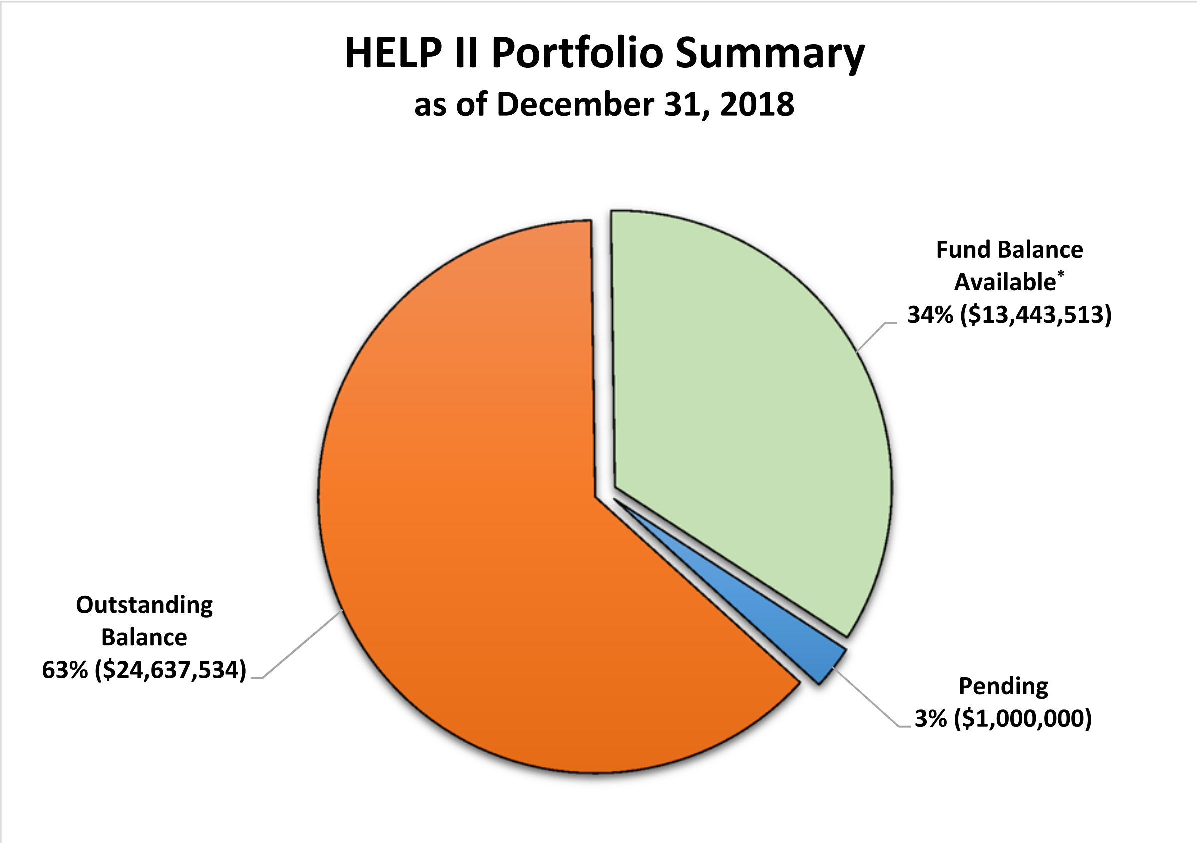
In April 2015, the Authority approved the following changes to HELP II:

1. Loan term increased from 15 to 20 years for the financing of real property acquisition and construction/renovation. Equipment loans remained at five years and refinancing loans remained at 15 years.
2. The maximum loan amount increased from $1,000,000 to $1,500,000 for the financing of real property acquisition, construction/renovation, and purchase of equipment. Refinancing loans remained at $1,000,000.
3. The interest rate decreased from 3% to 2% for all loans except refinancing. Refinancing loans remained at 3%.
4. A minimum floor of $6 million for the HELP II fund balance was established, below which, applications requesting more than $1 million may not be considered without Authority approval.

In April 2017, the Authority extended the above programmatic changes through April 2019, except for the minimum floor, which was a permanent change. Staff is recommending the Authority approve these terms at the May 2019 board meeting for another two-year period, through May 2021.

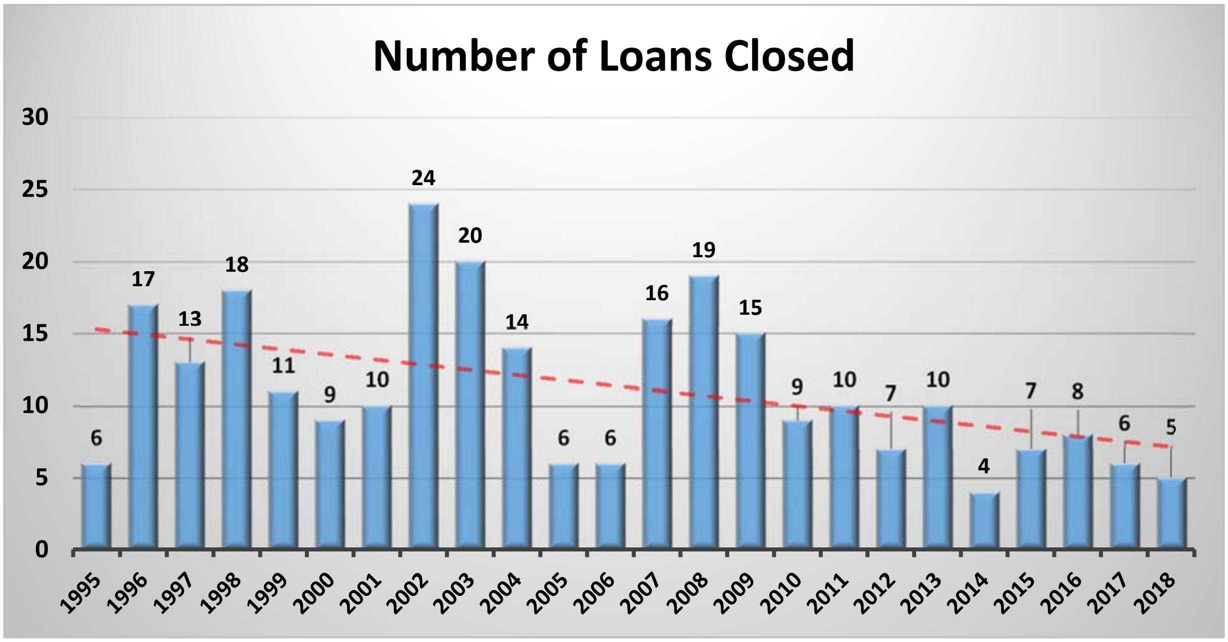
Portfolio

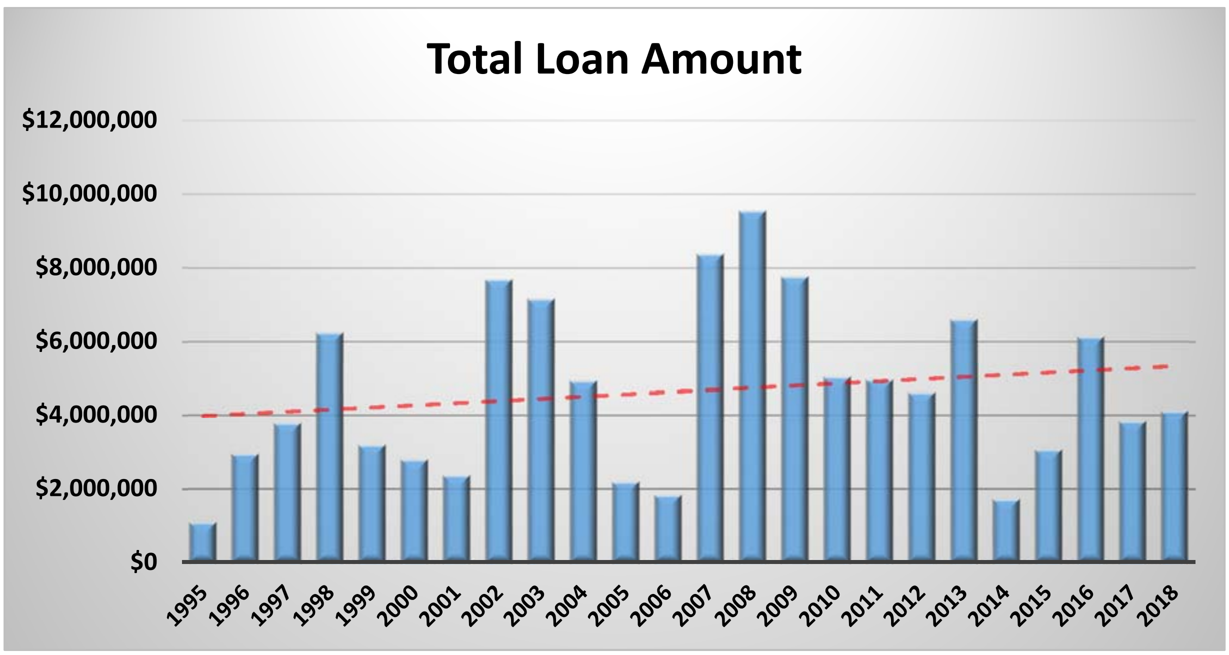
Since 1995, CHFFA has issued 270 loans for an aggregate total of $111.7 million to 180 health facilities. As of December 31, 2018, there were 79 active loans with a total outstanding amount of approximately $24.6 million.



*This is a draft figure due to Accounting's delay in providing audited financial data.

The following graphs provide a synopsis of HELP II as a whole, from 1995 through 2018.

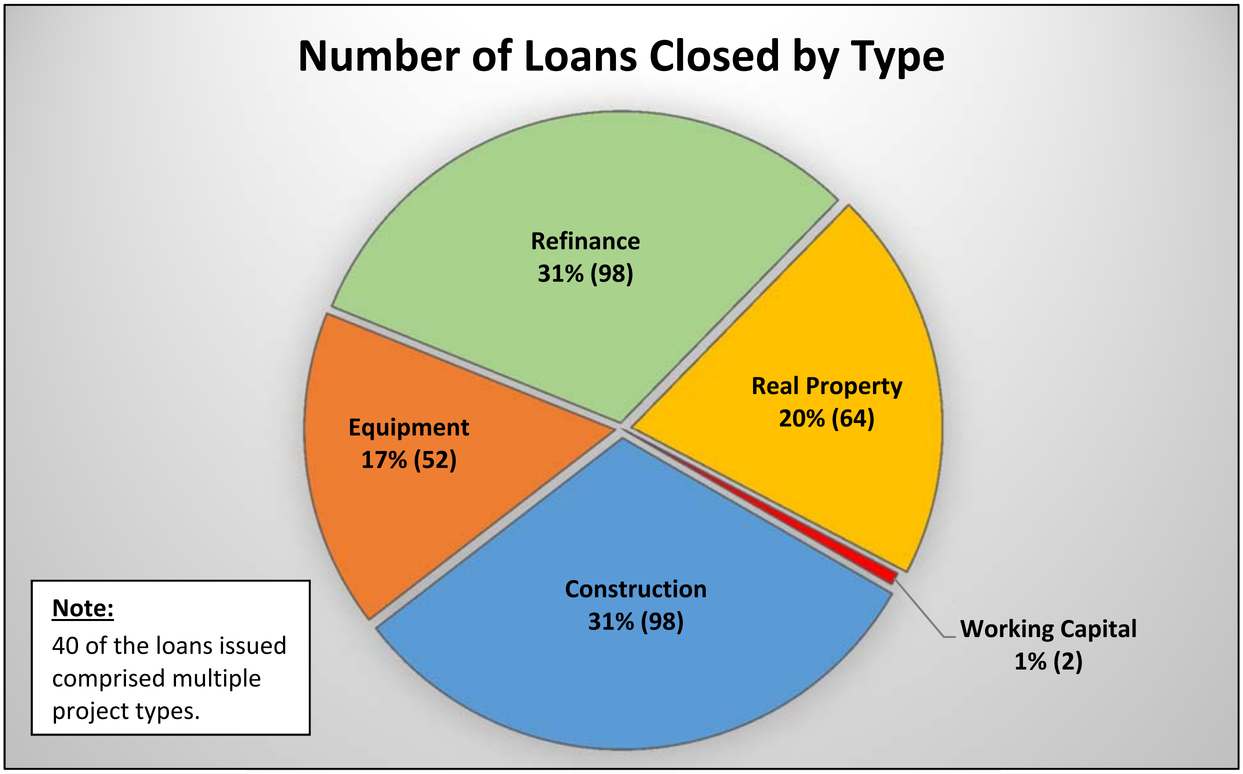


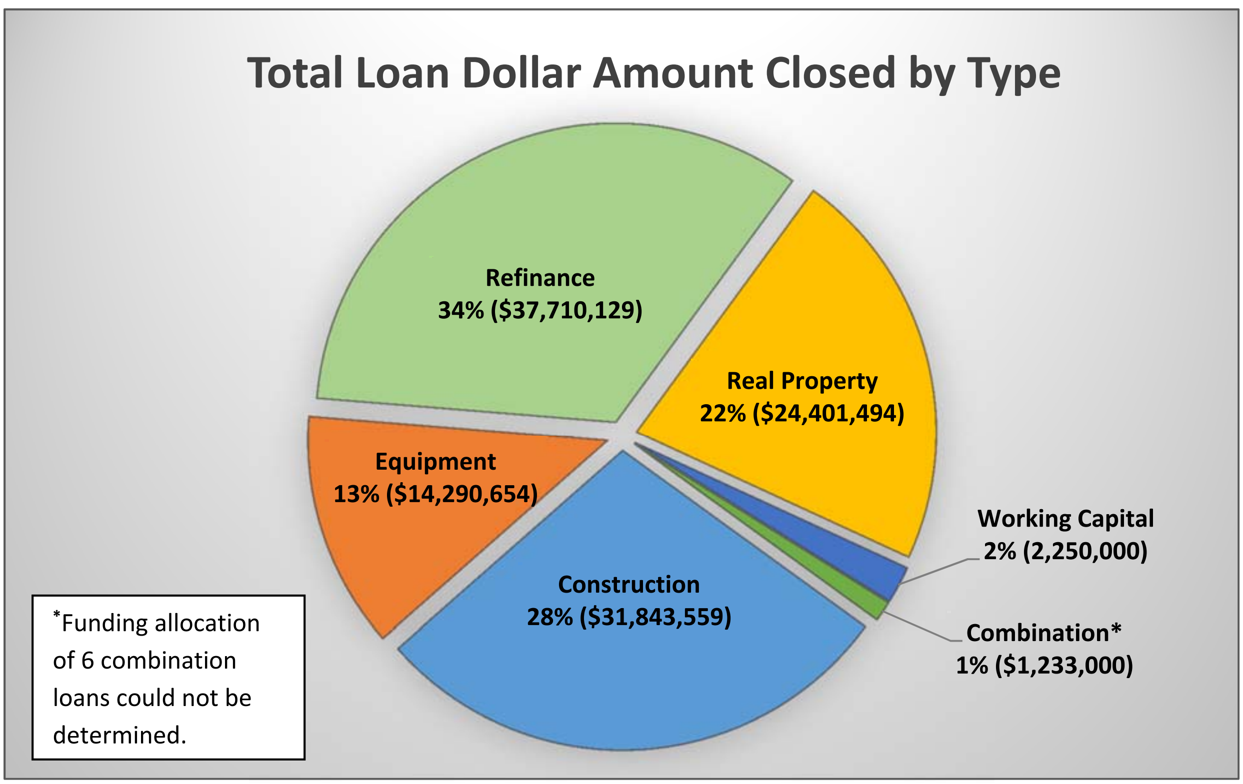


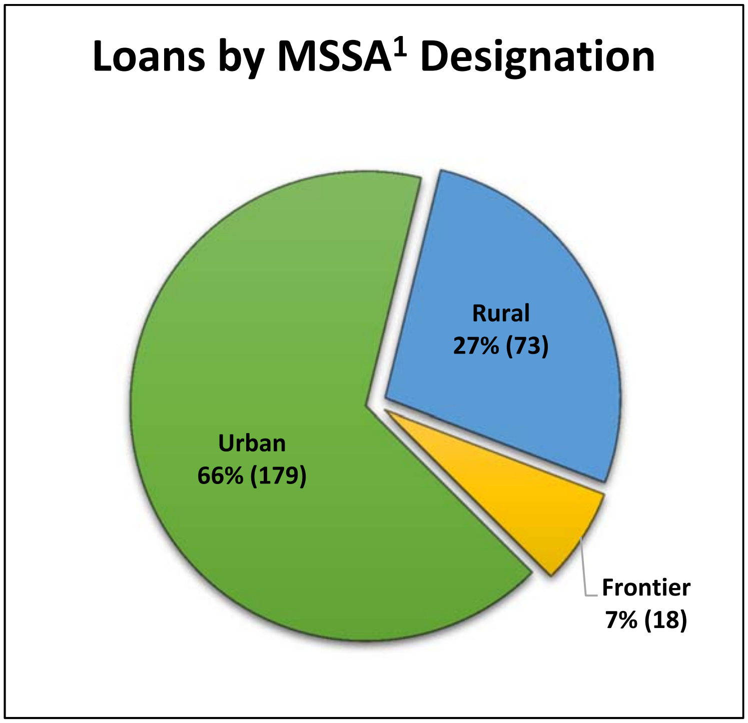
Over the course of HELP II's history, the number of loans closed per year has exhibited a decreasing trend while the total dollar amount of the loans closed each year has experienced an increasing trend. The diverging trends of these two graphs indicates that the total loan dollar amount closed each year has been supported by larger individual loan amounts. The trend is more apparent in the last five years, as will be discussed later in this report.

- **Average number of loans closed per year:** 11
- **Average total loan dollar amount closed per year:** $4,655,368

The charts below show the overall breakdown of the types of loans HELP II has funded from 1995 to 2018. Throughout the history of HELP II, refinancing and construction projects have been the most prevalent, but these charts display a healthy mix of all project types.







Likewise, looking at the localities where HELP II borrowers have come from, there is a robust array of locations 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.

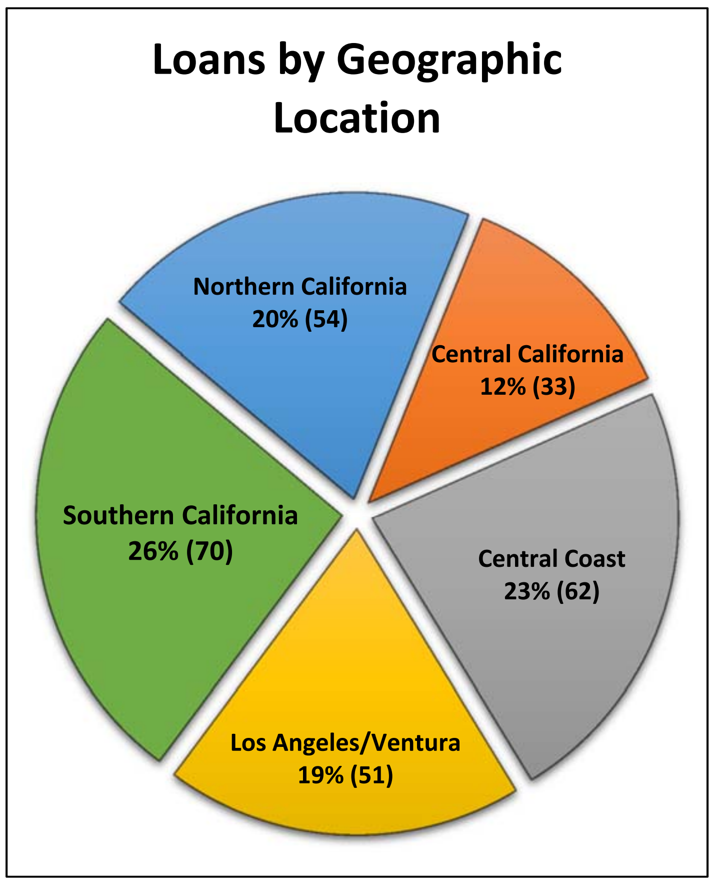
Northern California Counties: Butte, El Dorado, Humboldt, Lassen, Mendocino, Modoc, Nevada, Placer, Plumas, Shasta, Sutter, Trinity and Yuba

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 Health Manpower Policy Commission 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.

Summary of 2018 Calendar Year Financings

In 2018, the Authority approved five HELP II loans totaling $5,016,500, the results of which are:

- 3 loans closed in 2018
- 2 loans were in the process of closing

In 2018, the Authority closed five HELP II loans totaling $4,101,500, comprised of the following:

- 2 loans that were approved in 2017
- 3 loans that were approved in 2018

The following provides a summary of the five HELP II loans that closed in 2018.

$1,500,000; 2%; 10 years
Mendocino Coast Health Care District
Loan proceeds were used to finance the renovation of three separate projects mandated by the Office of Statewide Health Planning and Development to meet facility compliance.

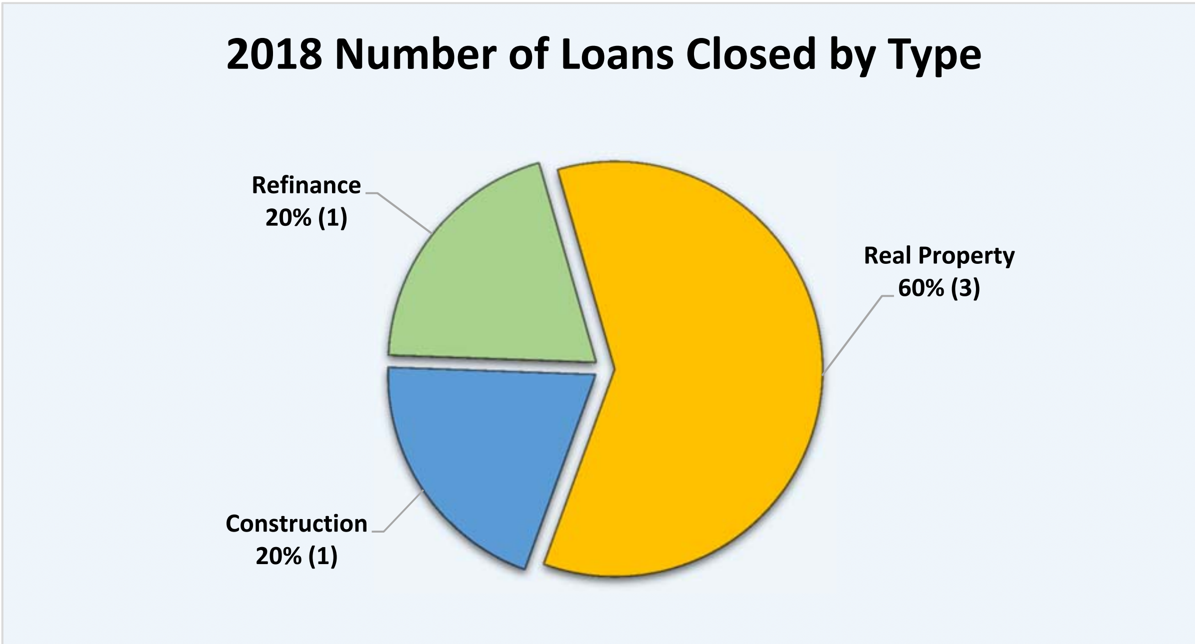
$1,200,000; 2%; 20 years
Contra Costa ARC*
Loan proceeds were used to finance the purchase of a commercial property to provide office space for administration and for the expansion of the ARC University training program.

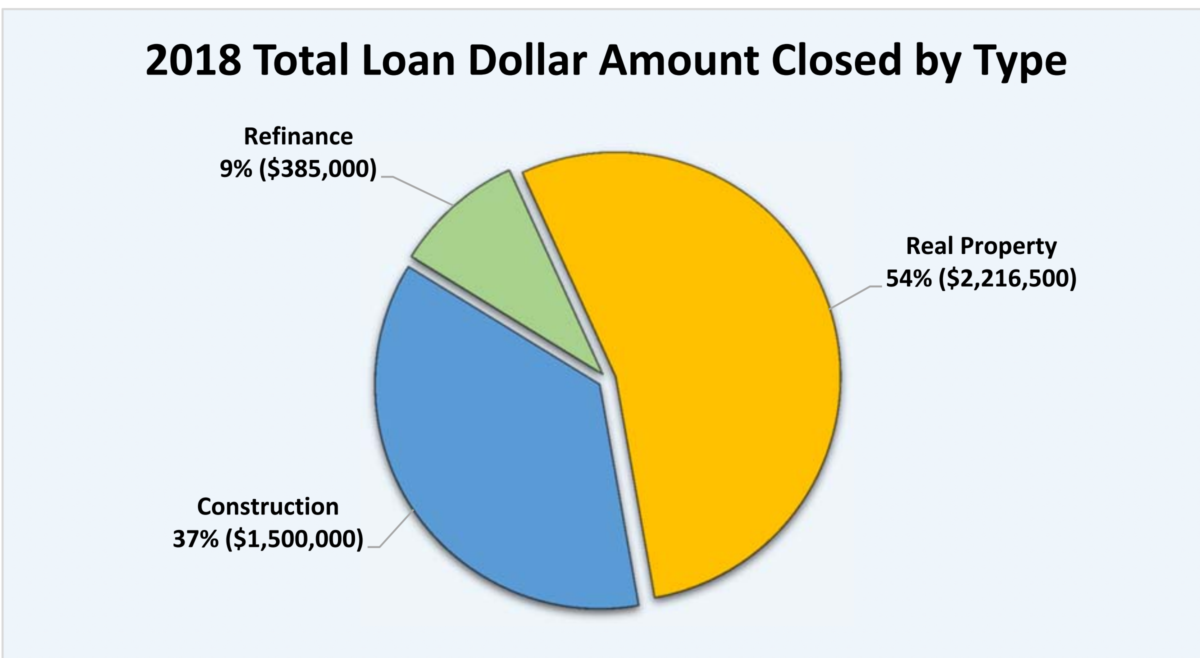
$560,500; 2%; 20 years
Eggleston Youth Center, Inc.
Loan proceeds were used to finance the purchase of a six-bedroom group home for six foster youth where Eggleston provides on-site behavioral health services.

$456,000; 2%; 20 years
CommuniCare Health Centers, Inc.
Loan proceeds were used to finance the purchase of a facility previously owned by a HELP II borrower in order to continue providing mental health services at the facility.

$385,000; 3%; 15 years
Creative Alternative for Learning/Living*
Loan proceeds were used to refinance two loans that were used to purchase land and a residential home that provides support services for adults with developmental disabilities.

* HELP II loans approved in 2017

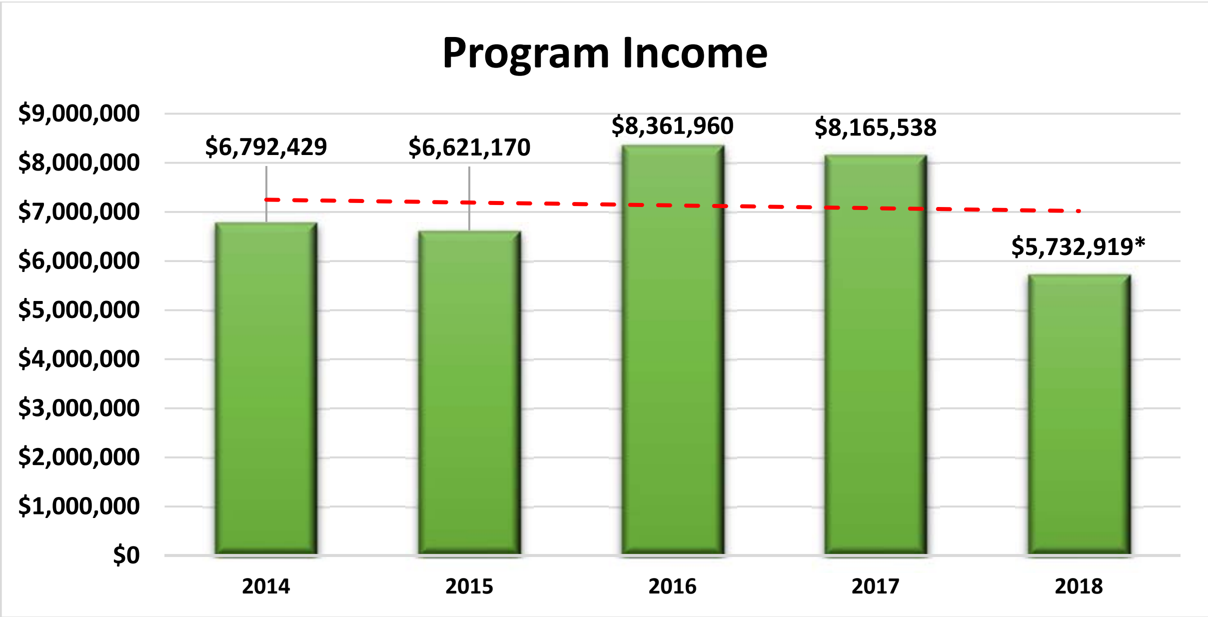


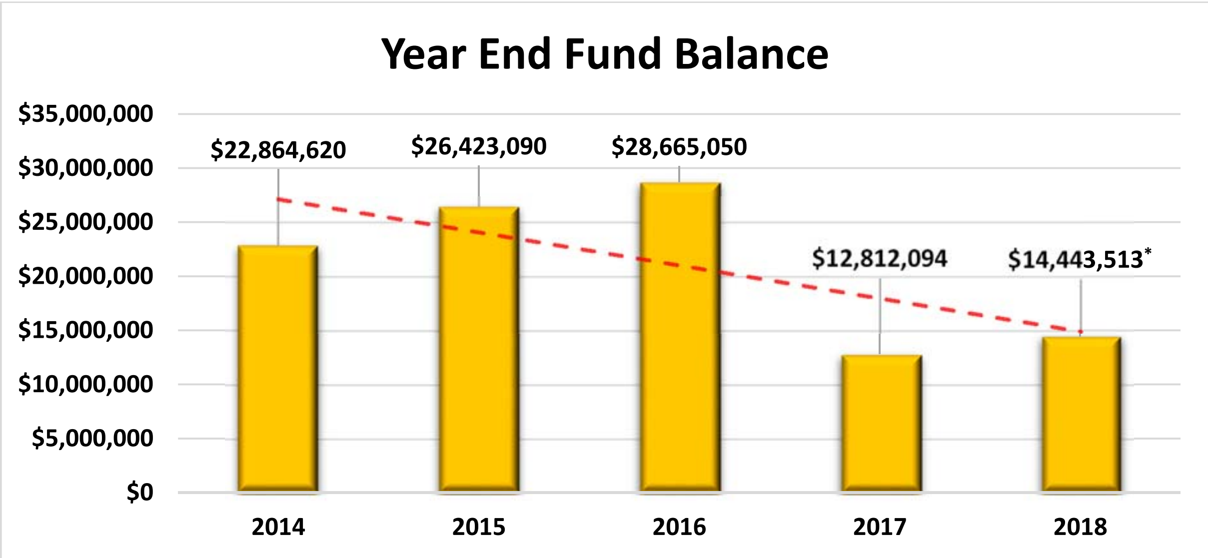


The two charts above provide details of the types of projects funded and how the dollar amounts were spent. The majority of the projects in 2018 were for purchasing real property as shown by the first chart, and the second chart shows similar data based on the loan dollar amount closed. The significant increase in the second chart in percentage for construction compared to the first chart is due to one large construction project that received $1.5 million, whereas all of the other projects were much smaller, averaging about $650,000 each. New money projects accounted for 91% of the total loan amount in 2018.

Five Year Trends

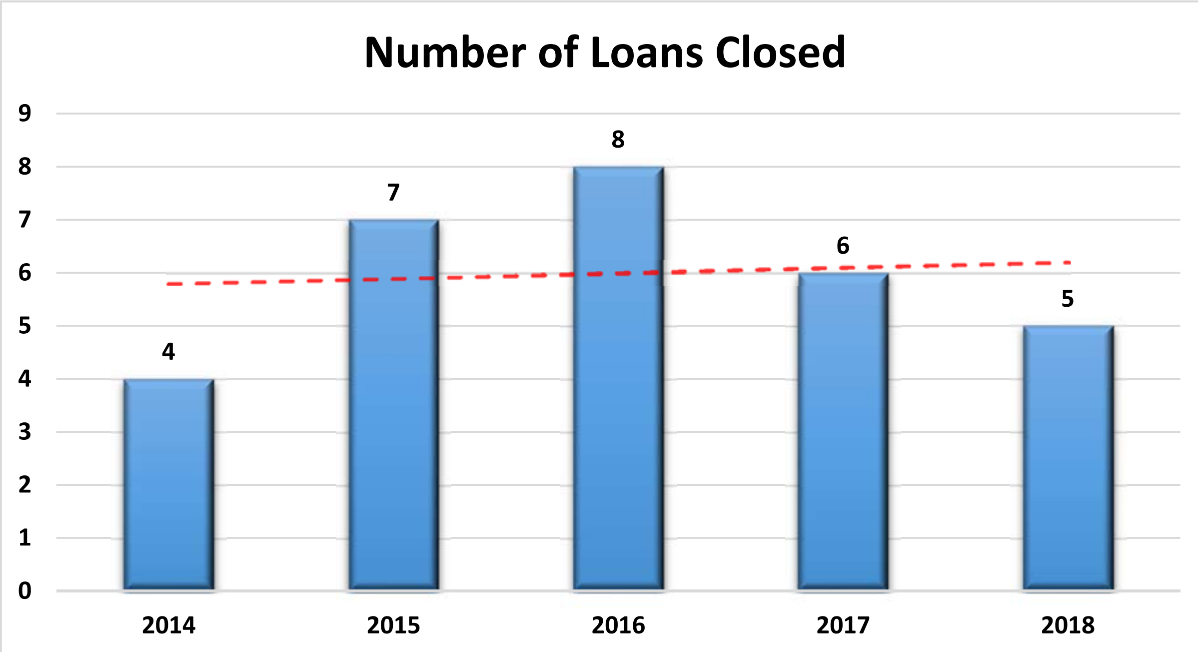
The following charts take a more focused look at the most recent five years, from 2014 through 2018.



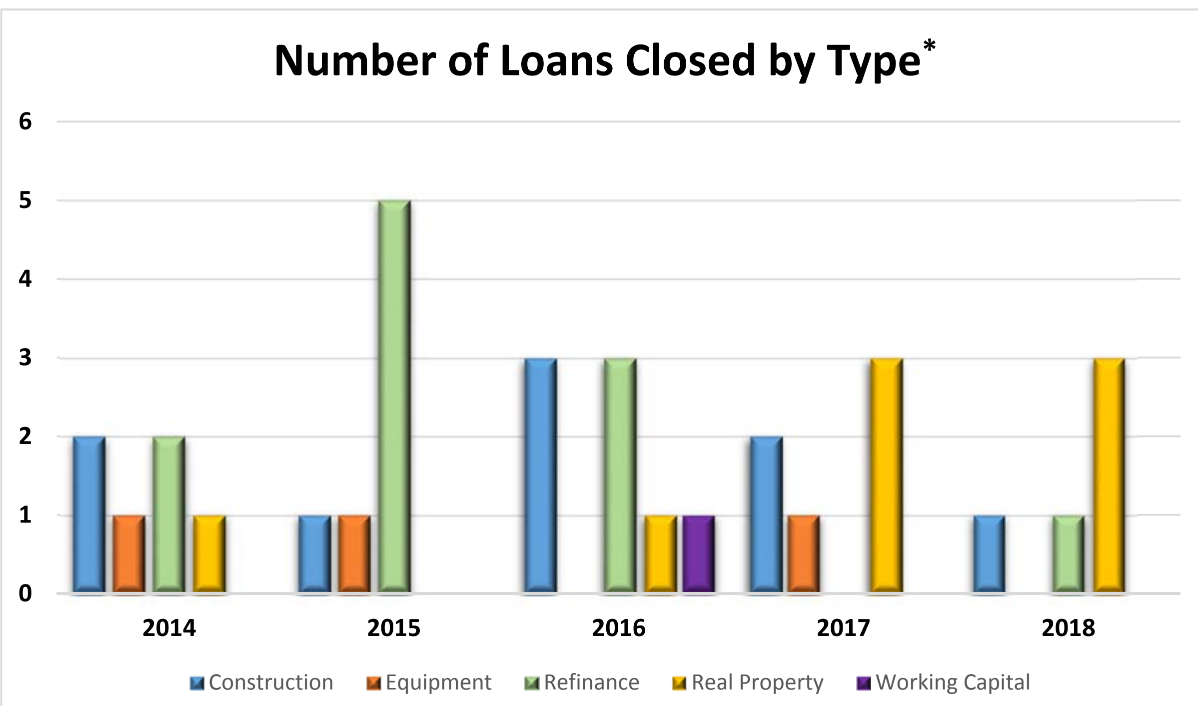


*This is a draft figure due to Accounting's delay in providing audited financial data.

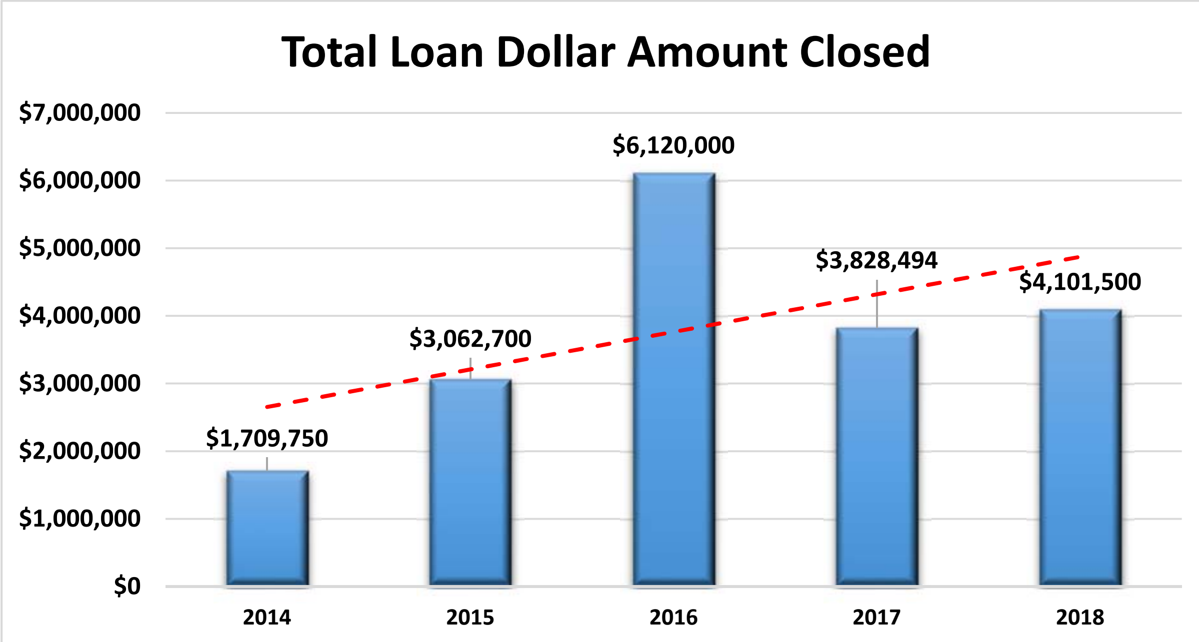
Program income includes principal and interest payments made on outstanding loans each year plus interest earned on the HELP II fund balance. The Program Income chart appears to show an upward trend from 2014 – 2016, before falling slightly in 2017 and experiencing a sharp decrease in 2018. The Year End Fund Balance chart shows a similar pattern with 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.



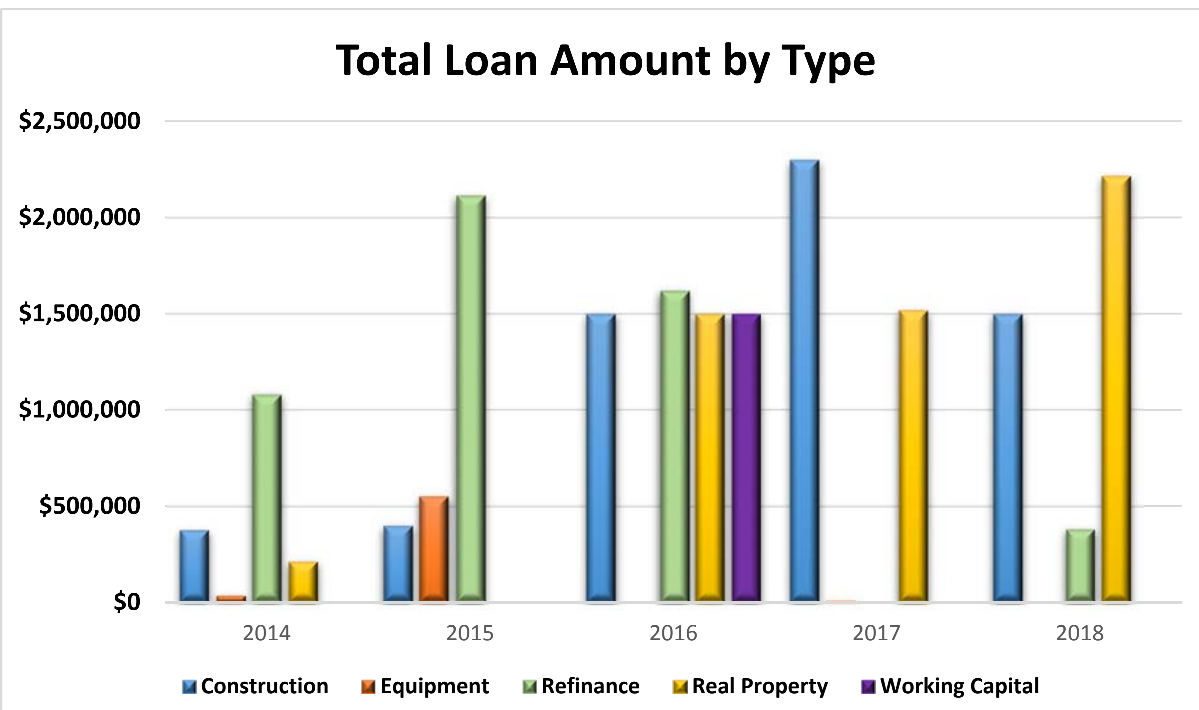
In the last five years, HELP II has closed 30 loans totaling about $19.5 million. Although the number of loans closed has a generally flat trend, the make-up of those loans has changed over time. The chart below shows a much more robust and accurate picture of what projects the HELP II loans have funded. In particular, there appears to have been a great need for refinancing loans from 2014 – 2016, but in 2017 and 2018, the need seemed to have shifted to real property acquisition. This suggests that, in more recent years, health facilities were looking to expand.

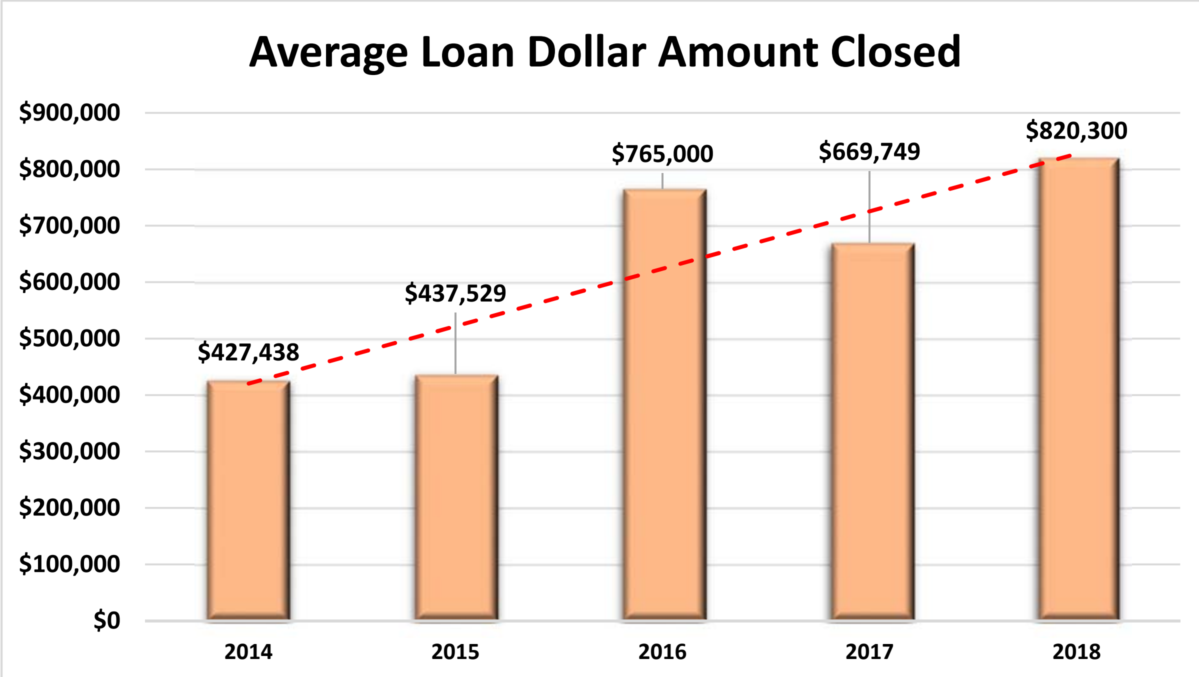


*In 2014, there was a combined purpose loan which has been split out by type in order to show borrower interest.



Although there appears to be a slowdown in the number of loans closed in recent years, the total dollar amount of loans closed exhibits an increasing trend. It is important to note once again that, in 2015, several programmatic changes were made for the purpose of enhancing access to HELP II, including decreasing the interest rate and increasing the maximum loan amount for all loan types except refinancings. As a result, 16 loans closed at the new 2% rate, and six loans were over $1 million during this time period.





From the previous charts, there were indications of a growing need for larger loan amounts as the trend in the total dollar amount of loans closed per year increased in spite of the plateauing trend in the number of loans closed. In the graph above, there is a clear increasing trend in the average loan amount, which further suggests that borrowers are, on average, requesting more money to fund their projects. The following information summarizes what a typical year looks like for HELP II based on the last five years.

Average program income per year: $7,234,803

Average year-end fund balance: $21,041,673

Average number of loans closed per year: 6

Average total loan dollar amount closed per year: $3,764,489

Average loan dollar amount closed per year: $627,415

Program Goals for Calendar Year 2019

To best project reasonable goals for the upcoming year, the results collected from the previous five years were used as a benchmark. With this general profile in mind, some goals staff hope to accomplish in 2019, include:

- Close at least six loans
- Close at least $4.5 million in loans