CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)

2024 ANNUAL REPORT

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Overview

The Healthcare Expansion Loan Program (HELP), created in 1988, was designed to provide small and rural health facilities with financing for capital needs through low-cost loans. While the HELP program was successful in fulfilling its mission, issuing 39 loans totaling $5.7 million, the program soon ran into trouble. CHFFA took no security on the loans, and there were no interest or initial fee charges. The HELP program was discontinued in 1994 as CHFFA desired to create a self-sustaining loan program.

CHFFA created the Healthcare Expansion Loan Program II (HELP II) in 1995, and in order to ensure HELP II was 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 an 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 original HELP II loan terms were a 3% interest rate, a maximum loan amount of $300,000, and a maximum term of 10 years. The following chart shows the general progression of the HELP II programmatic changes that resulted from a number of factors, such as changes in market interest rates, availability of funds, and general project cost increases.

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]
2024	$2,000,000[2]	$40 million	3%[5]	20 years[4]

[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. Maximum term for equipment and furnishings remained at 5 years.

[5] Interest rate for refinancing loans increased to 4%

In 2024, CHFFA's staff and the Authority's financial analyst, TAP International, Inc. (TAP) recognized that the fund balance was quickly depleting due to an increase in the average HELP II loan closings. Since 2021, CHFFA closed an average of 8.7 loans per year for a total of approximately $9.2 million per year. The volume increase was due to rising housing market prices and the rise in federal interest rates. CHFFA's 2% interest rate that had remained the same since 2015, was much more favorable than the commercial bank loan interest rates, which were over 8% at the time. Since the HELP II fund balance was the lowest it had ever been (See the Historical HELP II Portfolio chart on page 3) and since the HELP II interest rates were well-below the private market offerings, CHFFA's staff and TAP analyzed the effects of a proposed 1% increase in HELP II interest rates. The results of the analysis showed that an increase in the interest rate to 3% for new money loans and to 4% for refinances was reasonable and warranted.

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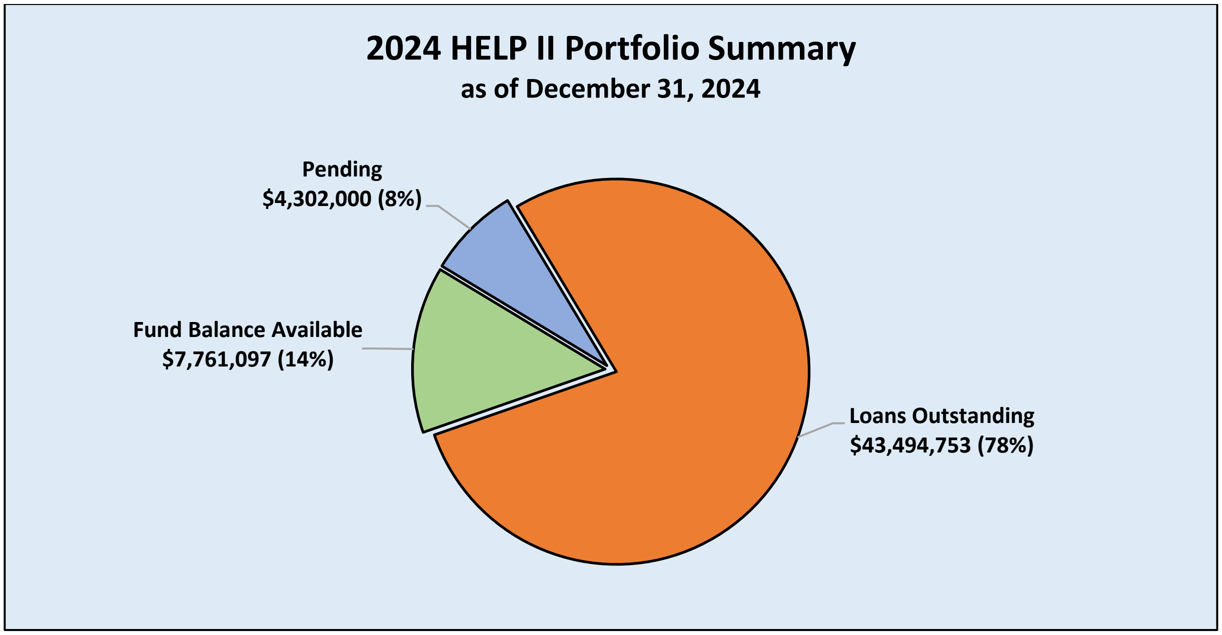
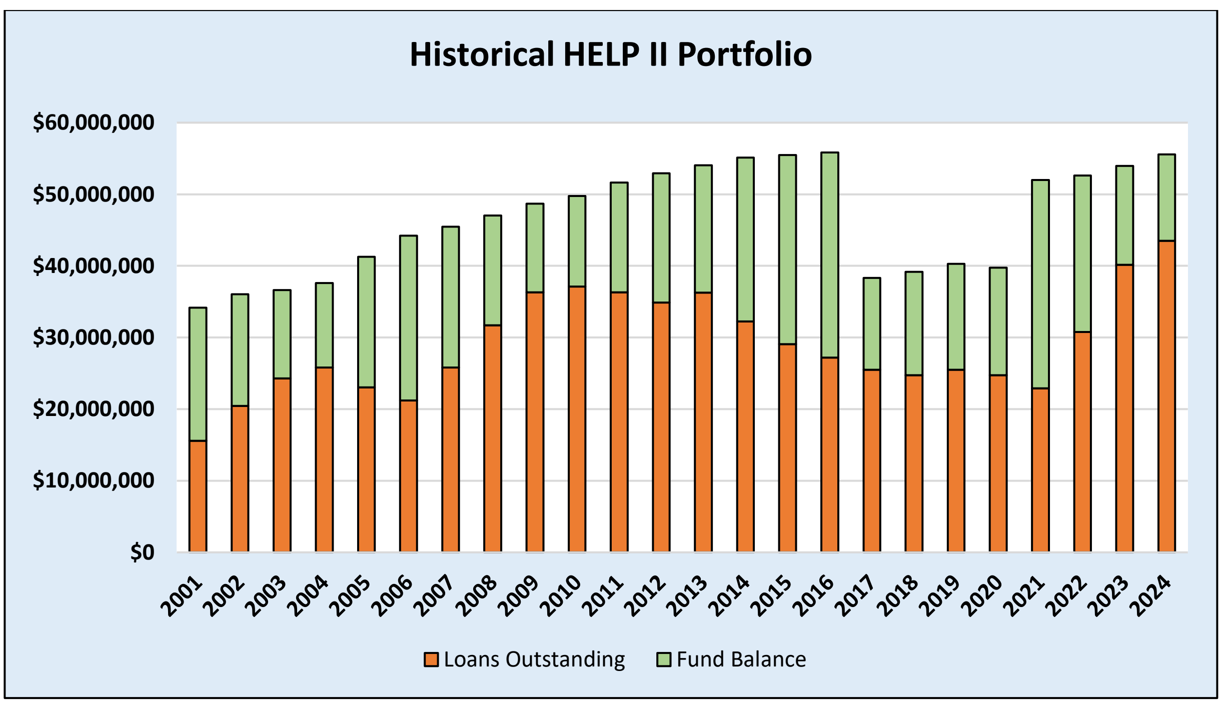
Portfolio

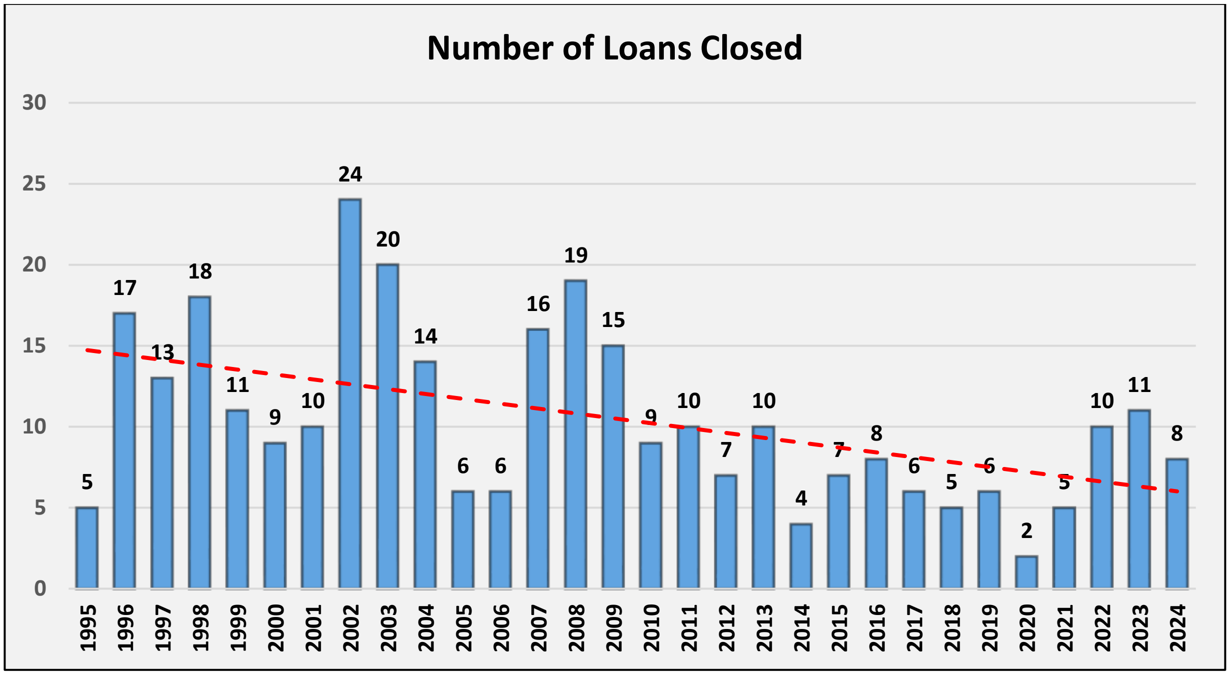
Since 1995, CHFFA has issued 311 loans for an aggregate total of approximately $152.9 million to 198 health facilities with a 0% default rate. As of December 31, 2024, there were 66 active loans with a total outstanding amount of approximately $43.5 million and a total Program portfolio amount of nearly $55.6 million.

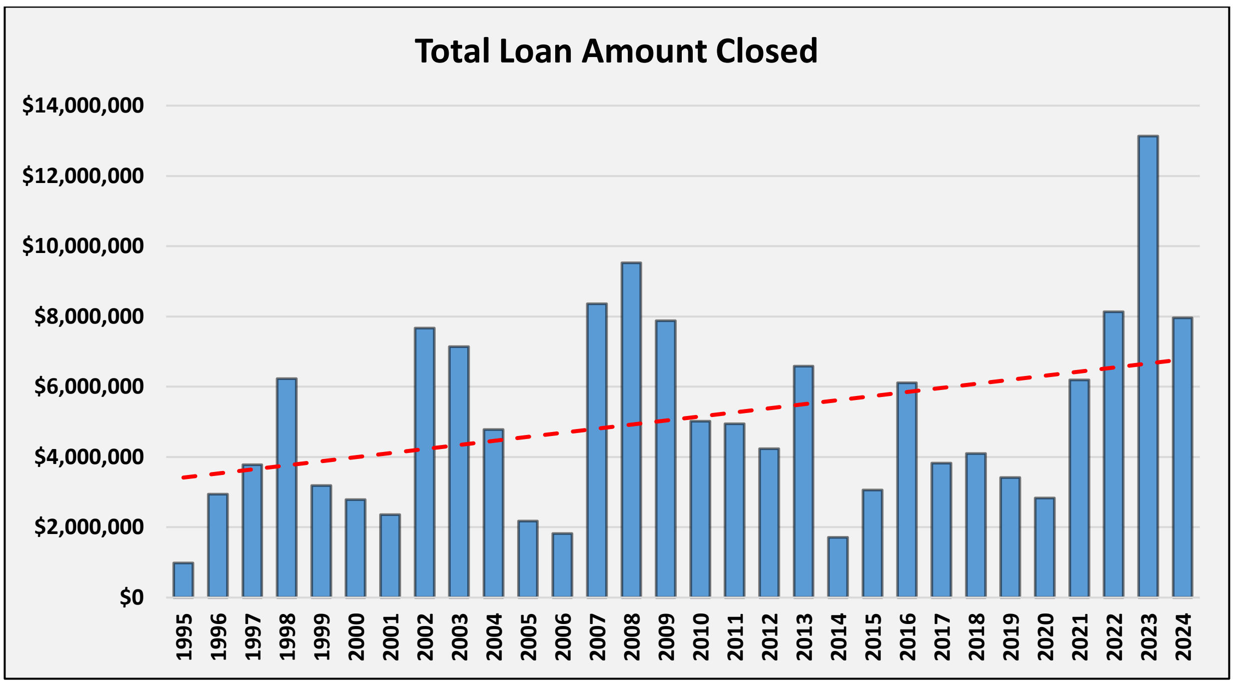


The chart below shows the makeup of the HELP II portfolio from 2001 through 2024. The portfolio demonstrated steady growth through 2016 before dropping in 2017 with the removal of $20 million from the fund balance for the Lifeline Grant Program. A little over $10 million was returned to the fund balance in 2021, but the total portfolio is still below its peak of nearly $57.3 million in 2016.



The following graphs provide a synopsis of HELP II as a whole, from 1995 through 2024.

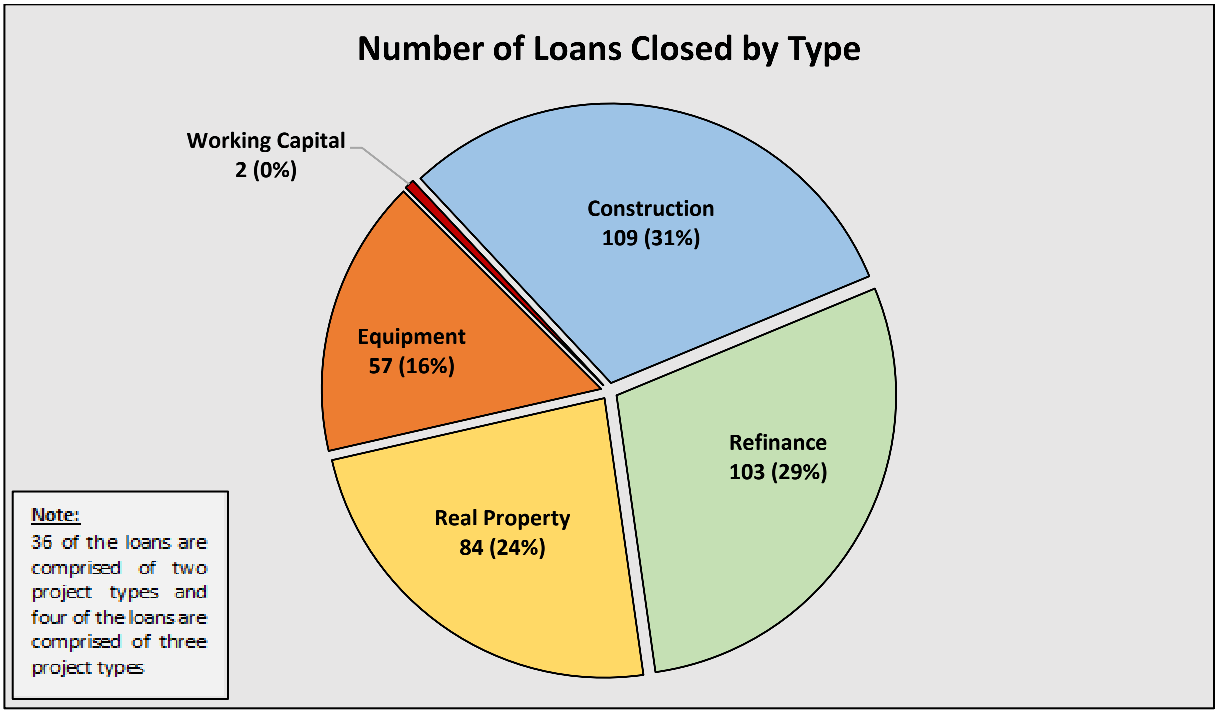


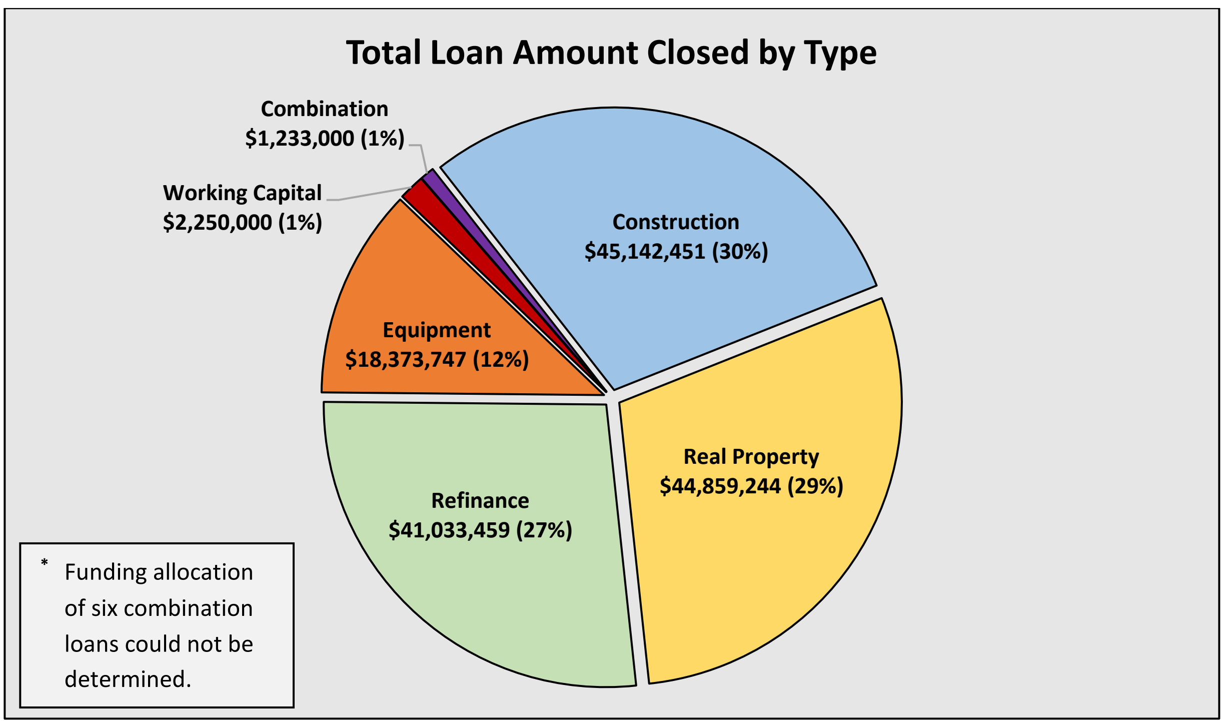


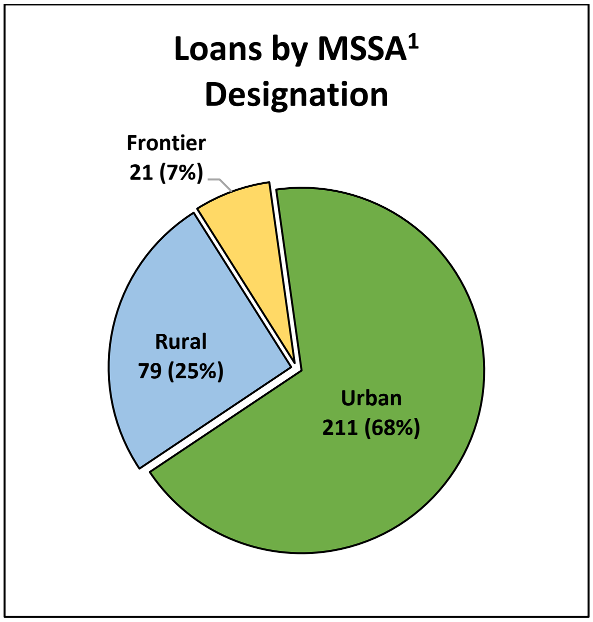
Over the course of HELP II's history, the number of loans closed per year has exhibited a decreasing trend; however, the total loan amount closed each year has experienced an increasing trend. The diverging trends of these two graphs indicates that the total loan amount closed each year has been supported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

- Average number of loans closed per year: 10
- Average total loan amount closed per year: $5,096,397

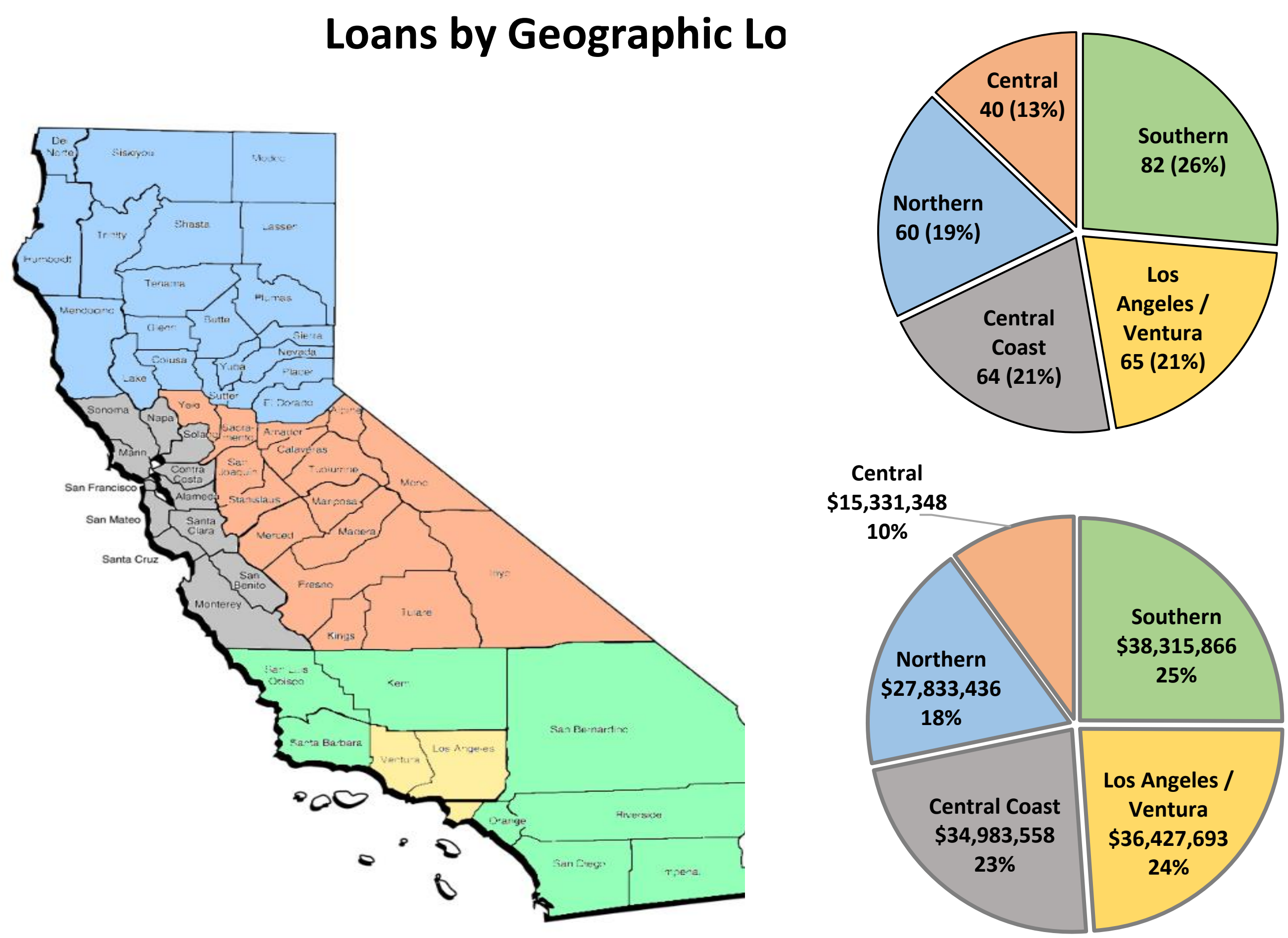
The charts below show the overall breakdown of the types of loans HELP II has funded from 1995 to 2024. Throughout the history of HELP II, construction/renovation projects and refinancings have been the most prevalent, but these charts display a healthy mix of all project types.





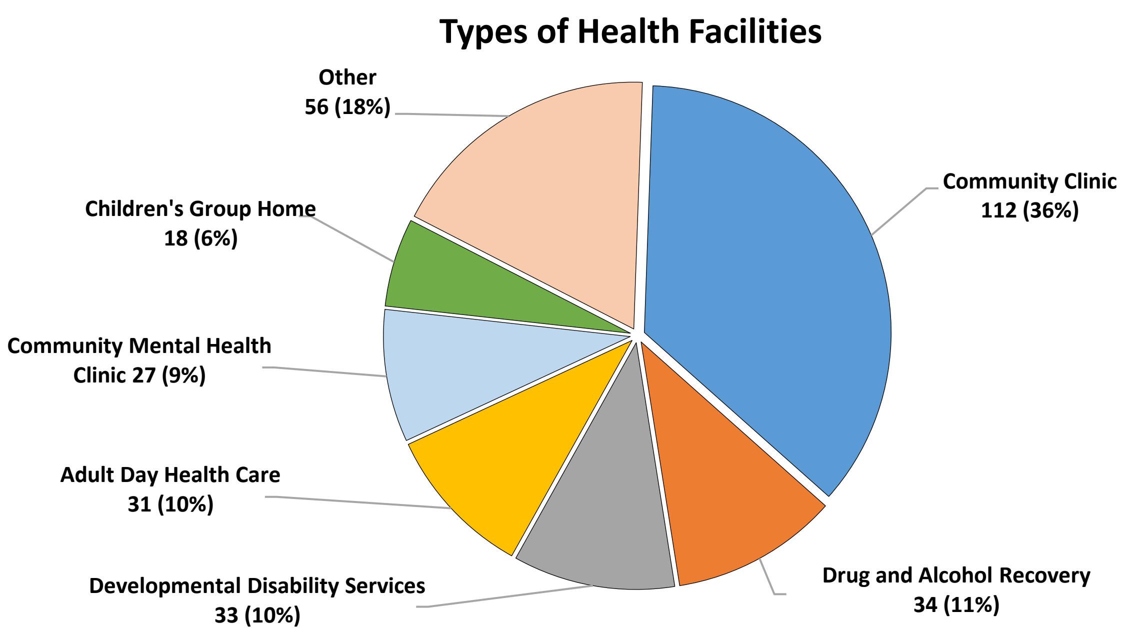


Likewise, looking at the localities from where HELP II borrowers have come, there is a robust array, measured both by MSSA[1] designation and by geographic region. From the chart to the left, about one in three HELP II loans closed are in a location designated as rural or frontier. The charts below show how loan requests and closures are spread throughout California, from Modoc County in the north all the way down to San Diego County in the south.



[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	Indian Clinic
Acute Psychiatric Hospital	Intermediate Care Facility
Adult Residential Facility	Residential Treatment Program
Adult Transitional Program	Retirement Center
Chronic Dialysis Clinic	Short Term Residential Therapeutic Program
Community Work Activity Program	Skilled Nursing Facility
Group Home	Social Rehabilitation
Health Care District	Special Health Care Facility
Helicopter Medical Evaluation Firm	

Summary of Calendar Year 2024 Financings

In 2024, the Authority approved 12 HELP II loans totaling $8,828,750 and closed eight HELP II loans totaling $7,957,169. One of the loans was approved in 2023 but closed in 2024. The following provides a summary of the eight HELP II loans that closed in 2024.

CRI-HELP, Inc. (Los Angeles County)

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

Loan proceeds were used to finance the purchase of property located in Los Angeles County to be used for a Recovery Bridge Housing program.

Celebrating Life Community Health Center (Orange County)

$1,610,000; 2%; 10 years

Loan proceeds were used to renovate two existing leased clinics in Costa Mesa and Santa Ana.

$383,000; 2%; 5 years

Loan proceeds were used to purchase new equipment for the Costa Mesa clinic.

Humanistic Foundation, Incorporated (Los Angeles County)

$1,200,000; 2%; 20 years

Loan proceeds were used to finance the purchase of a property located in Los Angeles County to expand short term residential treatment program services with an additional six beds.

Dientes Community Dental Care (Santa Cruz County)

$1,125,747; 3%; 20 years

Loan proceeds were used to renovate Dientes' 5,541 square-foot main clinic.

Mountain Valleys Health Centers (Lassen County)

$1,000,000; 4%; 15 years

Loan proceeds were used to refinance an existing loan that was used to finance the construction of Fall River Valley Health Center.

Willie Young's Home for Young Men Inc. dba Walt's Home for Young Men. (Los Angeles County)

$522,500; 2%; 20 years

Loan proceeds were used to finance the purchase of a property located in Kern County, to be used for the relocation of one of Walt Home's current short term residential treatment program facilities.

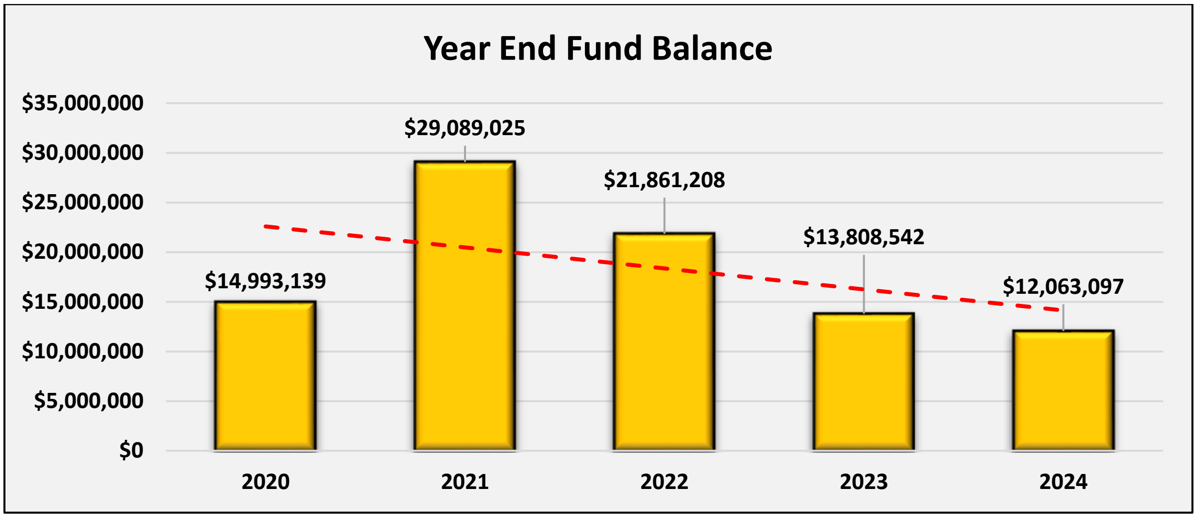
Asian Pacific Health Care Venture, Inc. (Los Angeles County)

$500,000; 2%; 20 years

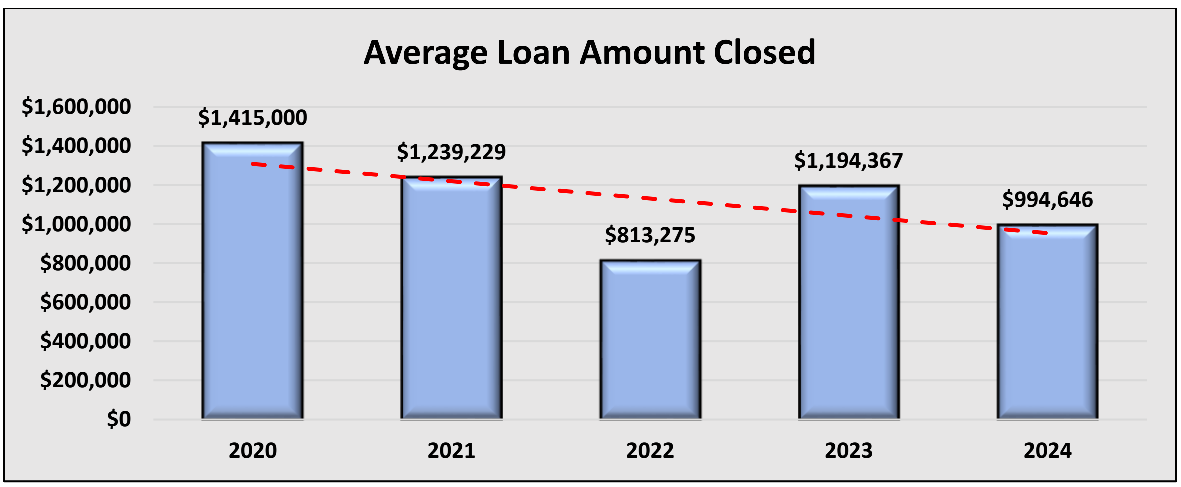
Loan proceeds were used to add an elevator to connect the facility's first and second floor to meet the Americans with Disabilities Act compliance requirements and to allow for expanded services on the second floor.

Five-Year Trends

The following charts take a more focused look at the past five years, from 2020 through 2024.



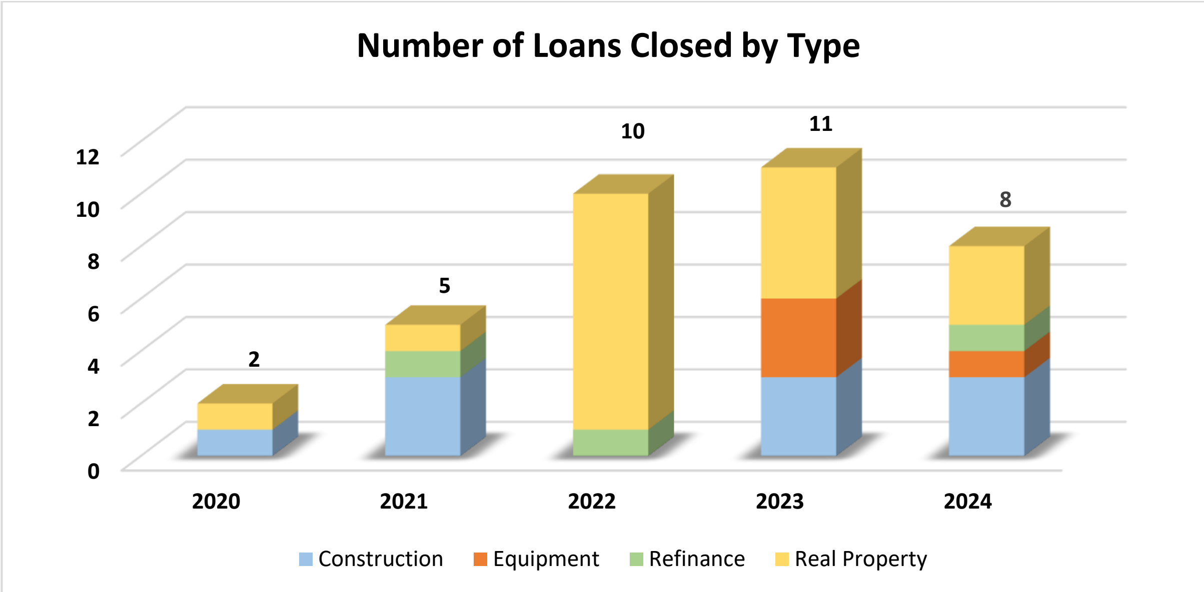
The Year End Fund Balance chart above shows a significant increase in 2021 as the Lifeline Grant Program ended and a little over $10.2 million in excess monies were returned back to the HELP II fund from where they were intially taken. The fund balance then significantly dropped as loan activity picked up with loans funded at more than $8.1 million in 2022, over $13.1 million in 2023, and over $7.9 million funded in 2024.



The graph above illustrates a fluctuating trend in the average loan amount closed over the five-year period. Loan volume also affected the averages as only two loans were closed in 2020 while 11 loans were closed in 2023.

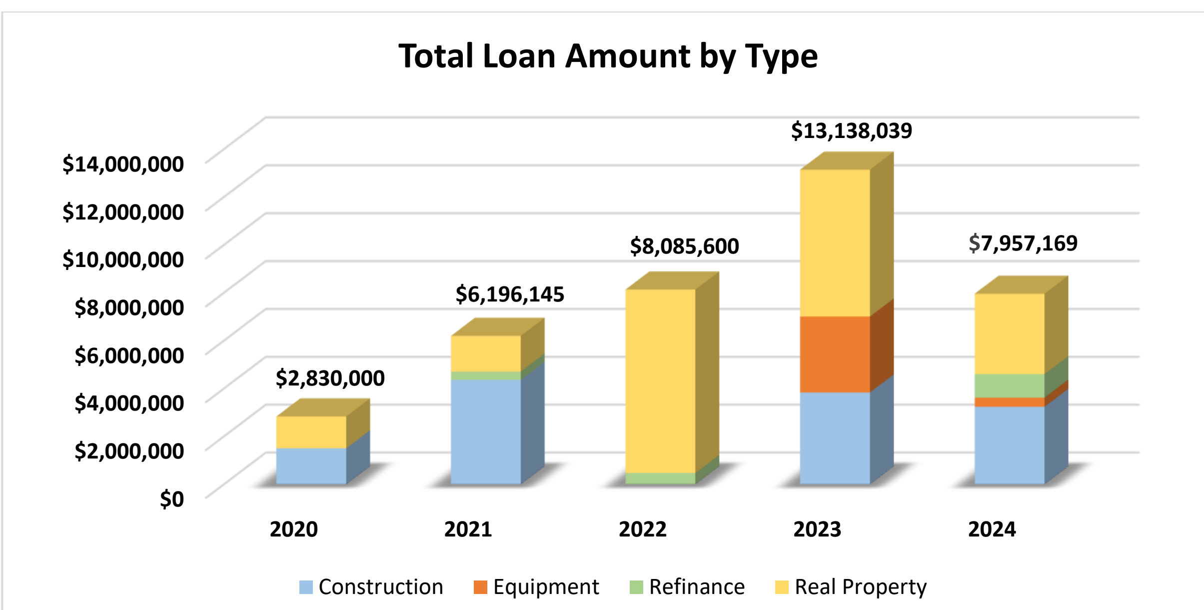
The following information summarizes a typical year for HELP II based on the last five years.

- Average year-end fund balance: $18,363,002
- Average number of loans closed: 7
- Average amount closed per loan: $1,131,303
- Average total amount closed: $7,650,821



In the last five years, HELP II has closed 36 loans totaling about $38.3 million. Over time, the make-up of those loans has varied. In particular, the most utilized loans were for real property acquisition in years 2020 through 2024, with construction loans being second most common. Refinance loans were the least common over the past five years with single transactions in 2021, 2022, and 2024.

The chart below illustrates the usage of loan funds by the various loan types. As similarly demonstrated in the chart above, the majority of the loan funds used in 2022, 2023, and 2024 were for property acquisition. The greater interest in property acquisition loans over the past three years can be attributed to some borrowers expanding services to new areas and other borrowers securing locations for current services as they moved from leasing property to owning property.



Outlook for Calendar Year 2025

The eight loans closed for nearly $8 million in 2024 shows the first decrease in the number and amount of HELP II loans closed since 2020. With the implementation of broad global tariffs, economic uncertainty can be expected for 2025. We can expect an increase in the cost of construction materials, such as lumber, aluminum, and steel. The increase in construction material costs could bar or delay potential borrowers from pursuing construction and renovation loans. The Federal Open Market Committee (FOMC)[2] projects a "stagflationary outlook" due to increased inflation and slow growth. The FMOC has also signaled two possible rate cuts later this year, but these projections may change if risks, such as inflation and/or an economic slowdown, emerge from federal policies. The effects on CHFFA's HELP II program remain unknown in the midst of economic uncertainty, and staff will continue to monitor it closely.

[2] The Federal Open Market Committee is responsible for directing the nation's monetary policy and has the authority to vote on a change in interest rates, which influences U.S. economic conditions.