



CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II) **OVERVIEW**

LOW FIXED INTEREST RATE
LOANS FOR CALIFORNIA'S
NON-PROFIT SMALL AND/OR RURAL
HEALTH FACILITIES

915 Capitol Mall, Room 440

Sacramento, California 95814

Phone: (916) 653-2799

Website: www.treasurer.ca.gov/chffa

The California Health Facilities Financing Authority (Authority) recognizes the difficulty small and rural health facilities have in obtaining adequate financing for their capital needs. In 1995, the Authority launched the Healthcare Expansion Loan Program II (HELP II) to assist health facilities in expanding and improving services to the people of California by providing direct low-cost loans.

GENERAL INFORMATION

- ◆ Eligibility for a HELP II loan does not guarantee loan approval as loan requests must be approved by the Authority board. All loans must be approved at an Authority board meeting by a majority of the Authority board members. The Authority reserves the right to approve or deny any loan. Fund availability may further restrict lending eligibility.
- ◆ [HELP II applications](#) are accepted on a continual basis. Applications are due by the 20th of each month in order to be considered at the next month's Authority board meeting (meetings are generally held the last Thursday of the month). Visit our website at www.treasurer.ca.gov/chffa for the list of meeting dates.
- ◆ The Authority staff will analyze the applicant's application and financial information to prepare a report to present to the Authority board. The Authority staff may require a site visit to evaluate the project and the applicant's operations.
- ◆ Applicants are required to attend the meeting (virtually or in person) to present their proposals and answer questions from members of the Authority board.

ELIGIBILITY

- ◆ Must qualify as a health facility under the Authority's enabling legislation (see examples of qualifying health facilities, page 3).
- ◆ Must be one of the following:
 - A health facility with no more than \$40 million in annual gross revenues, as shown on most recent audited financials
 - Located in a rural Medical Service Study Area as defined by the California Healthcare Workforce Policy Commission (no maximum annual gross revenue requirement)
 - A district hospital (no maximum annual gross revenue requirement)

In addition to above requirements, an applicant must also:

- ◆ With some exceptions, must be licensed by the State of California, typically the Departments of Health Care Services, Public Health, or Social Services
- ◆ Must have been in existence for at least three years performing the same type(s) of services
- ◆ Must provide audited financial statements for previous three fiscal years. Must demonstrate evidence of fiscal soundness and the ability to meet the terms of the loan
- ◆ Must be able to begin project within six months of loan approval

HEALTH FACILITIES DEFINED

To be eligible for financing, an applicant must have non-profit status **and** qualify as a health facility under the Authority's enabling statute – Section 15432(d) of the Government Code. With few exceptions, a facility must be licensed by the State of California. If an applicant is unsure about eligibility, please contact the Authority.

Examples of qualifying health facilities include, but are not limited to:

- General Acute Care Hospitals
- Adult Day Health Centers
- Alcoholism Recovery Facilities ⁽¹⁾
- Chemical Dependency Facilities
- Child Day Care Facilities ⁽²⁾
- Community Clinics
- Community Mental Health Facilities Center ⁽³⁾
- Community Work-Activity Program (Accredited)⁽⁴⁾
- Residential Facility for Persons with Developmental Disabilities
- Multilevel Care Facilities
- Acute Psychiatric Facilities
- Public Health Centers (e.g. District Hospital)
- Rehabilitation Facilities
- Residential Care Facility for the Elderly
- Skilled Nursing / Intermediate Care Facilities

(1) Services must include residential care that provides a 24-hour stay.

(2) Must be operated in conjunction with a licensed health facility.

(3) State license is not required; however, program must be certified by the State of California, Department of Health Care Services.

(4) Includes sheltered workshops.

FEES

- ◆ \$50 non-refundable application fee
- ◆ Once approved, there is a one-time fee payable at closing equal to 1.25% of the loan amount
- ◆ There are no annual loan administrative fees or prepayment penalty fees

USES OF FUNDS

Loan proceeds of a minimum of \$25,000 and a maximum of \$2,000,000 per borrower may be used for eligible uses as listed below.

Eligible Uses:

- ◆ Purchase, construction, renovation, or remodeling of real property
- ◆ Purchase equipment and furnishings
- ◆ Perform feasibility studies, site tests, and surveys associated with real property
- ◆ Pay permit fees, architectural fees, and other pre-construction costs
- ◆ Refinance existing debt (up to \$1 million, existing debt must qualify as an eligible use under HELP II)
- ◆ Pre-approval for real property acquisition loans only

Ineligible Uses:

- ◆ Appraisal fees, title fees, financial advisor fees, Authority loan fees
- ◆ Day-to-day operational expenses/working capital
- ◆ Reimbursement of prior project or equipment expenditures
- ◆ Refinancing part of a single outstanding obligation

LOAN TERMS

Terms:

- ◆ 3% fixed interest rate for property acquisition, construction, renovation, and equipment
- ◆ 4% fixed interest rate for loan refinancing
- ◆ Loan amounts of \$25,000 to \$2,000,000
- ◆ Repayment Period:
 - Maximum of 20 years for property acquisition, construction, and renovation
 - Maximum of 15 years for loan refinancing
 - Maximum of 5 years for equipment
- ◆ Maximum loan-to-value ratio of 95%
 - Borrowers must contribute a minimum of 5% toward project costs, either in the form of cash or project expenditures. For refinancing transactions, the 5% may come from equity in the property.
- ◆ Pre-approval is available for real property acquisition. Resolutions are valid for six months and closing is conditional based on all standard loan terms being met
- ◆ Fully amortized loans
- ◆ No prepayment penalties
- ◆ Loans can be funded approximately 60 days from the date of application

Security:

- ◆ All loans:
 - Gross revenue pledge via UCC-1 Financing Statement with the Secretary of State
- ◆ For property acquisition, construction, renovation loans:
 - 1st lien position via deed of trust on the real property used to secure loan
- ◆ For equipment loans:
 - UCC-1 Financing Statement on equipment financed

The Authority may impose other/additional security requirements depending on the facts and circumstances of the transaction.

Below are the terms and requirements of various project types:

Real Property Acquisition, Construction, and Renovation

- ◆ Minimum loan amount \$25,000; Maximum loan amount \$2,000,000
- ◆ 3% interest rate
- ◆ Maximum of 20-year loan repayment period
- ◆ Must be secured by real property and gross revenue pledge
- ◆ The Authority requires 1st lien position
- ◆ At the time of application, applicant must provide project cost estimates
- ◆ Acquisition or construction/renovation project must show readiness to commence within six months
- ◆ All construction, and renovation projects must comply with California's prevailing wage law under Labor Code section 1720, et seq.
- ◆ Documents that will be **required** prior to loan closing:
 - Fully executed purchase or construction contract, as applicable
 - Preliminary title report
 - Pro forma ALTA title insurance policy
 - Current appraisal of real property, exhibiting a loan-to-value ratio not to exceed 95%
 - Verification of applicant's funds to close escrow
 - Execution of the Authority's loan documents

Refinancing

- ◆ Minimum loan amount \$25,000; Maximum loan amount \$1,000,000
- ◆ 4% interest rate
- ◆ Maximum of 15-year loan repayment period
- ◆ Must be secured by real property and gross revenue pledge
- ◆ The Authority requires 1st lien position
- ◆ At the time of application, applicant must provide a copy of the promissory note that is being refinanced and the most recent mortgage statement
- ◆ Documents that will be **required** prior to loan closing:
 - Payoff demand letter
 - Preliminary title report
 - Pro forma ALTA title insurance policy
 - Current appraisal of real property, exhibiting a loan-to-value ratio not to exceed 95%
 - Verification of applicant's funds to close escrow
 - Execution of the Authority's loan documents

Equipment

- ◆ Minimum loan amount \$25,000; Maximum loan amount \$2,000,000
- ◆ 3% interest rate
- ◆ Maximum of 5-year loan repayment period
- ◆ Must be secured by lien on equipment financed and gross revenue pledge
- ◆ At the time of application, applicant must provide description of equipment, cost of equipment, and vendor(s) name
- ◆ Documents that will be **required** prior to loan closing:
 - Verification of applicant's funds to close
 - Execution of the Authority's loan documents

STANDARD LOAN COVENANTS

Applicants receiving loans must:

- ◆ Submit audited annual financial statements, and if requested by the Authority, unaudited quarterly financial statements and budgets
- ◆ Maintain adequate property and business insurance
- ◆ Notify the Authority of any significant changes in corporate existence prior to the occurrence (i.e. merger, consolidation, structure, or name change)
- ◆ Request Authority consent for any assignment, encumbrance, or additional lien on secured collateral
- ◆ Request Authority consent for any additional debt
- ◆ Maintain a debt service coverage ratio of at least 1.0x

APPLICATION AND APPROVAL PROCESS

- ◆ Contact Authority staff for initial consultation of eligibility and project discussion
- ◆ Applications are accepted on a continual basis and due by the 20th of each month to be considered at the next regularly scheduled Authority board meeting
- ◆ Applicant will be assigned an Authority staff member who will manage the application
- ◆ Authority staff will work with applicant to complete staff report to be presented to the Authority board for approval. The staff report will include applicant/organization information, project description, financial data/operating statistics, and a staff recommendation
- ◆ Applicants are required to attend the meeting (virtually or in person) to present their proposals and answer questions from members of the Authority board
- ◆ Authority board will vote on approval of financing request

LOAN CLOSING PROCESS AND BEYOND

Closing Process:

- ◆ Once the loan has been approved by the Authority board, the Authority staff will work with the applicant to determine a closing date no later than the date of the Authority resolution repeal date (typically six months)
- ◆ Applicant will provide certain documents required for closing, such as appraisal, purchase contract, construction contract, or construction invoices
- ◆ Authority staff will prepare loan closing packet documents for signature, such as loan agreement, promissory note, and gross revenue pledge. Documents are valid for one month (equipment loans) or two months (new money and refinancing loans)
- ◆ Authority staff will go over covenants and compliance requirements with the applicant
- ◆ Authority staff will ensure the resolution conditions are met
- ◆ Borrower will open escrow (if applicable) and Authority staff will work with the escrow/title company to obtain a preliminary title report, closing fees, and to record the Deed of Trust and close the loan.

Post-Closing Process:

- ◆ Applicant will provide certain documents required by the Loan and Security Agreement, such as but not limited to:
 - Audited financial statements, due annually 150 days following fiscal year end
 - Proof of insurance
 - Monthly construction progress reports
 - Completion certificate
 - Certificate of occupancy
 - License