CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)

2022 ANNUAL REPORT

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Overview

The Healthcare Expansion Loan Program (HELP) was designed to provide small and rural health facilities with financing for capital needs through low-cost loans. HELP became operational in 1988. While the HELP program was successful in fulfilling its mission, the program soon ran into trouble, as CHFFA took no security on the loans, and there were no interest or initial fee charges. The HELP program made 39 loans totaling $5.7 million and was superseded by the HELP II Loan Program (HELP II) in 1995.

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 following chart shows the general progression of the HELP II programmatic changes.

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]

In July 2021, in order to improve the overall competitiveness of HELP II, the Authority approved, among other things, increasing the maximum cumulative loan amount to $2 million[2] to finance real property acquisition, construction or renovation, and equipment and furnishing acquisition loans and the maximum annual gross revenue eligibility requirement to $40 million for small facilities.

The mission of HELP II remained the same as HELP, to provide low-interest rate loans for the purchase of real property, construction/renovation, purchase of equipment and furnishings, and refinancing of existing debt to those qualifying as participating health facilities.

1 Maximum annual gross revenues eligibility requirement does not apply to rural health facilities and district hospitals.

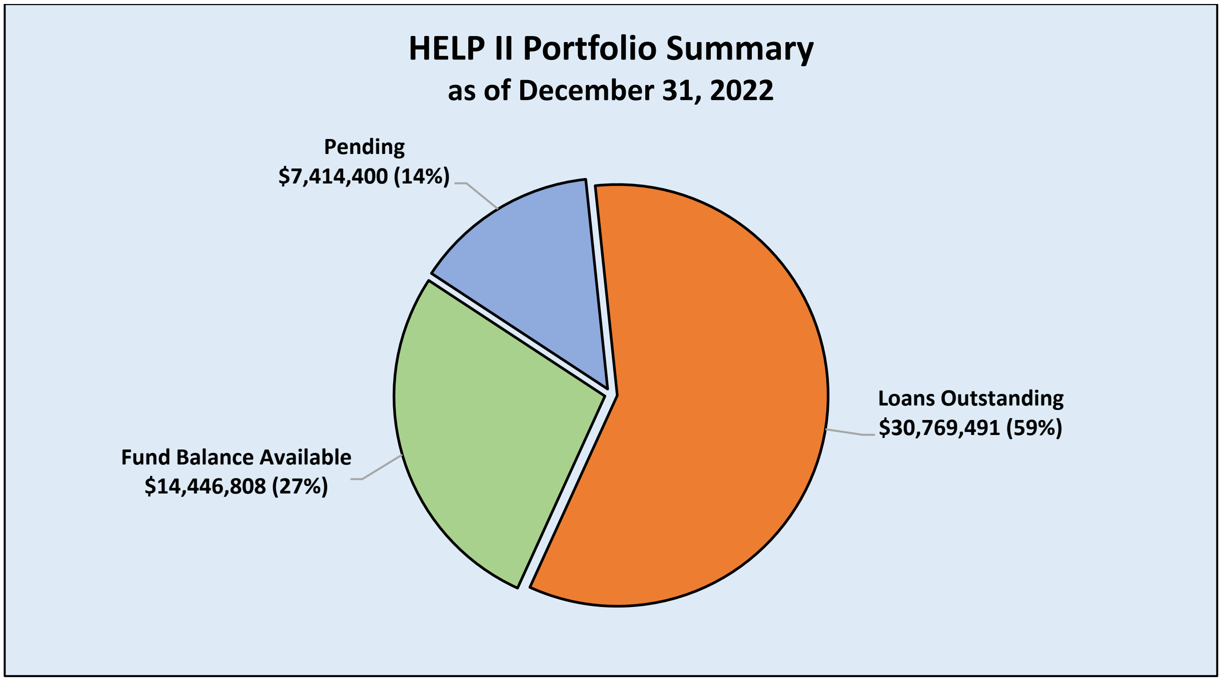
2 Maximum loan amount for refinancing loans remained at $1,000,000.

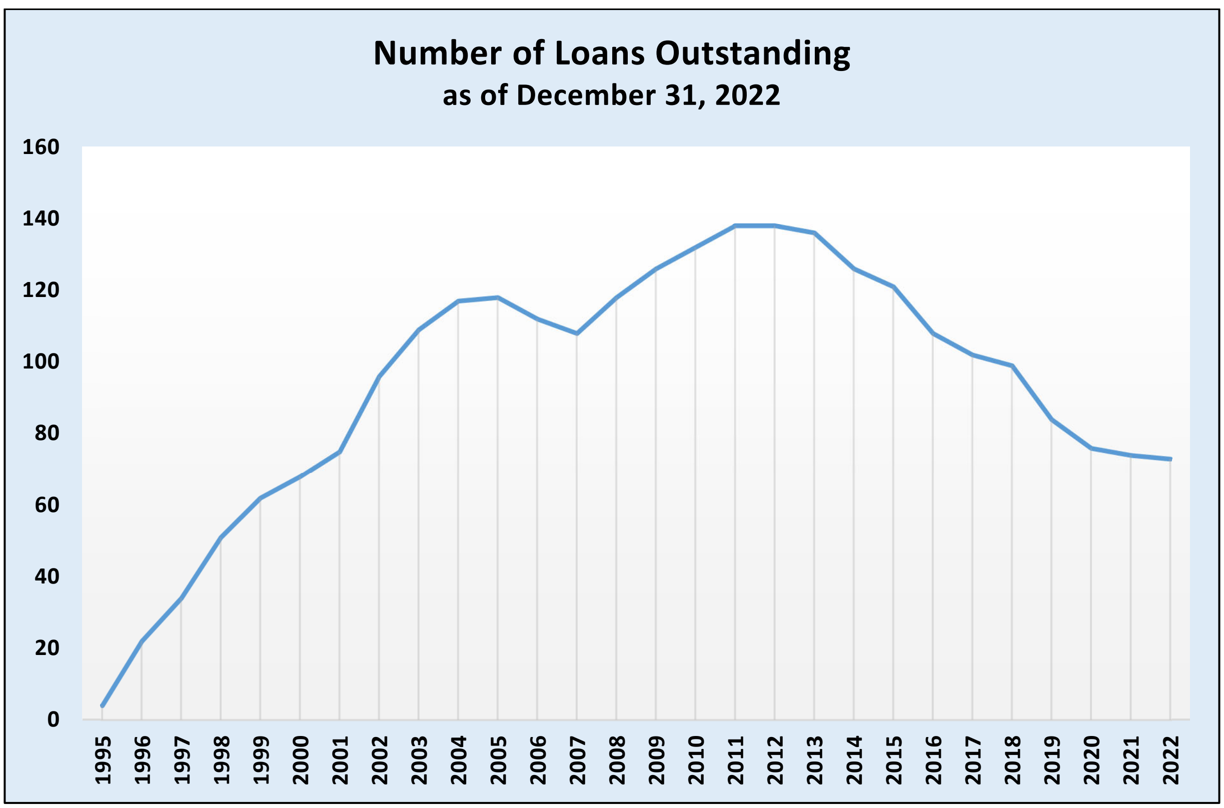
3 Interest rate for refinancing loans remained at 3%.

4 Maximum term for refinancing loans remained at 15 years.

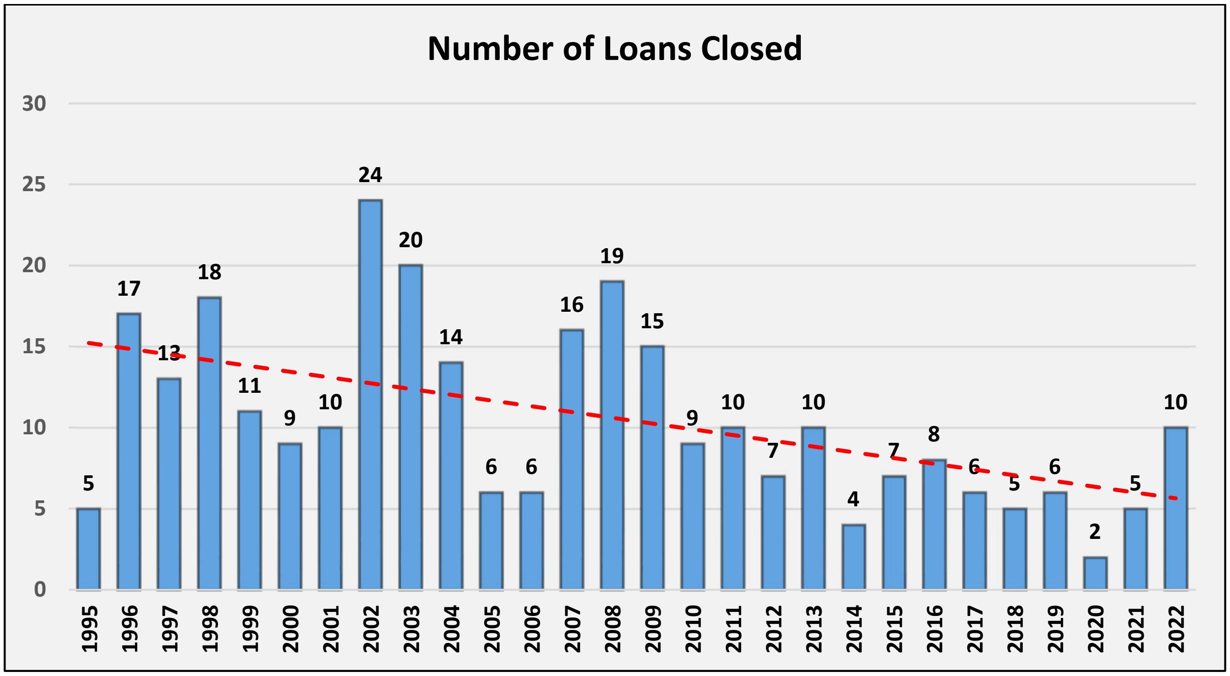
Portfolio

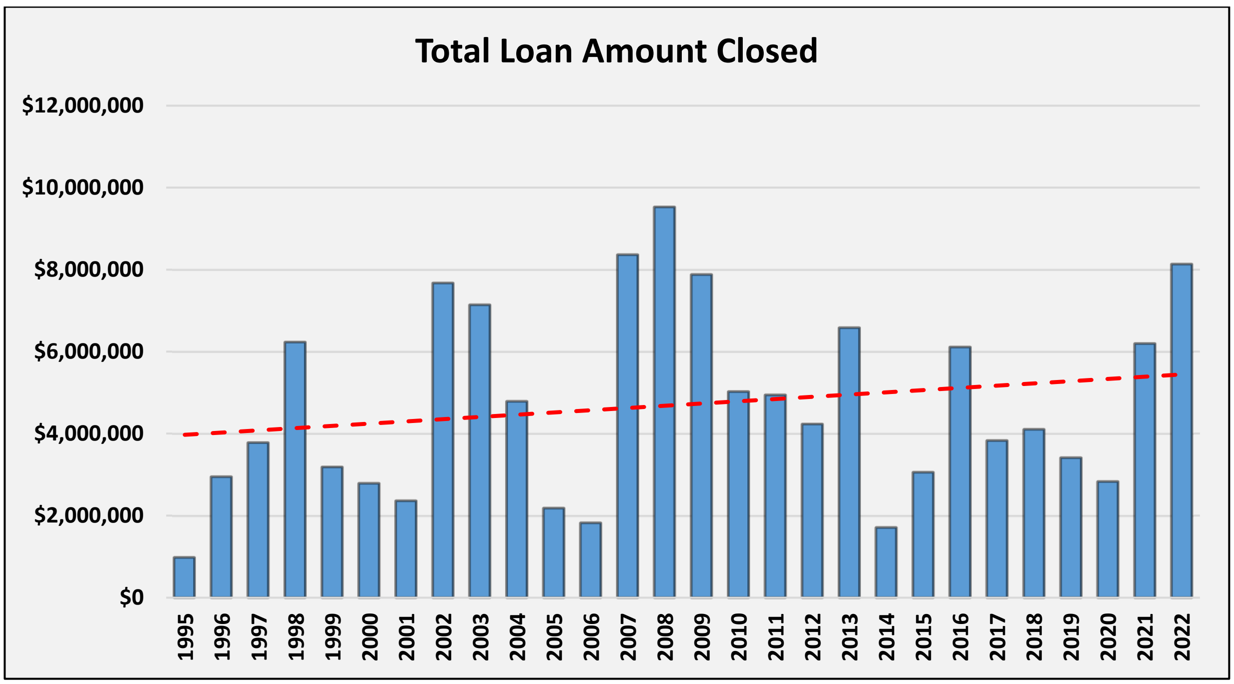
Since 1995, CHFFA has issued 292 loans for an aggregate total of $131.8 million to 188 health facilities with a 0% default rate. As of December 31, 2022, there were 73 active loans with a total outstanding amount of approximately $30.8 million and a total Program portfolio amount of approximately $52.6 million.





The following graphs provide a synopsis of HELP II as a whole, from 1995 through 2022.

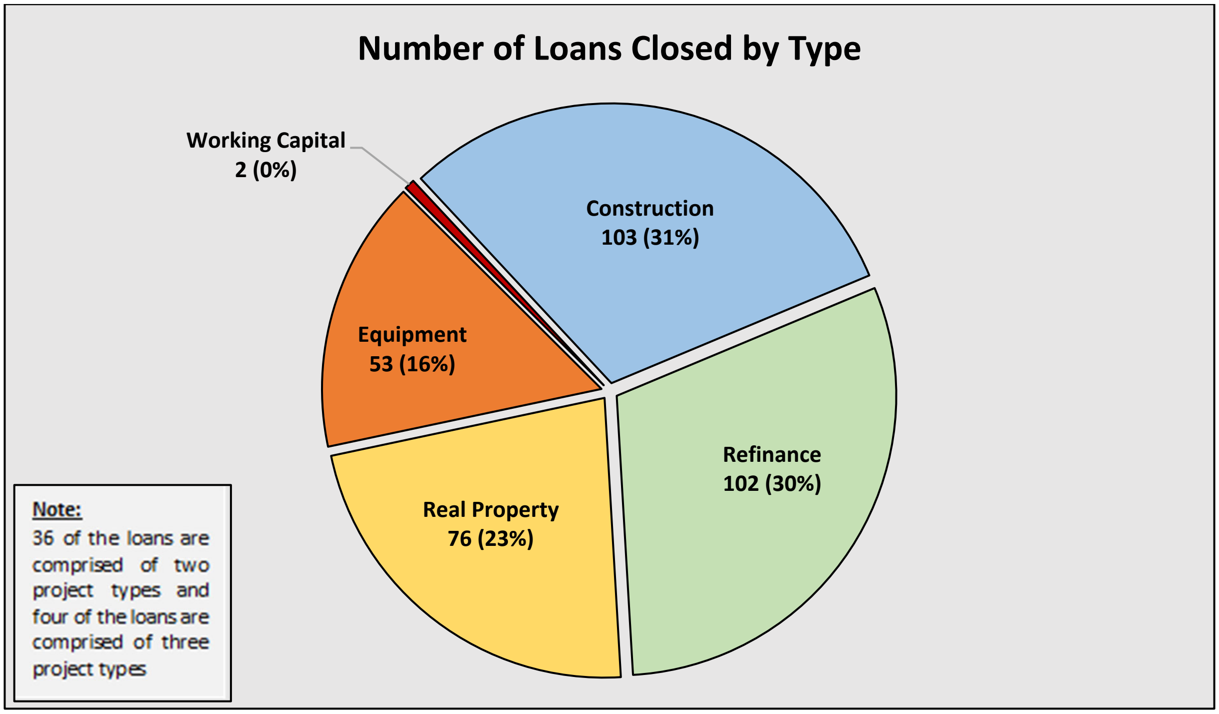


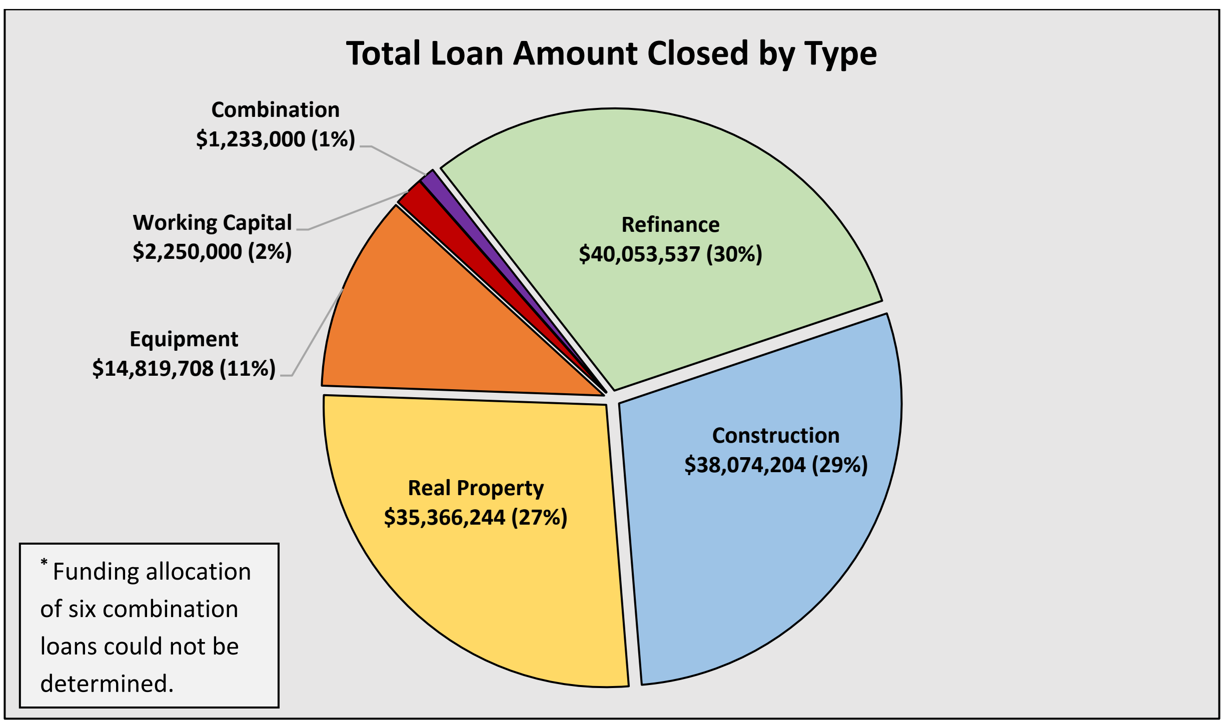


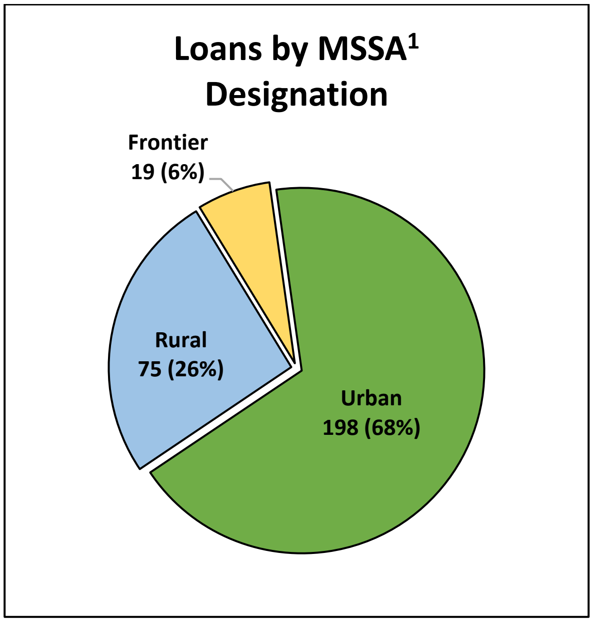
Over the course of HELP II's history, the number of loans closed per year has exhibited a decreasing trend while the total loan amount closed each year has experienced a slightly increasing trend. The diverging trends of these two graphs indicates that the total loan amount closed each year has been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

- Average number of loans closed per year: 10
- Average total loan amount closed per year: $4,707,025

The charts below show the overall breakdown of the types of loans HELP II has funded from 1995 to 2022. 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.

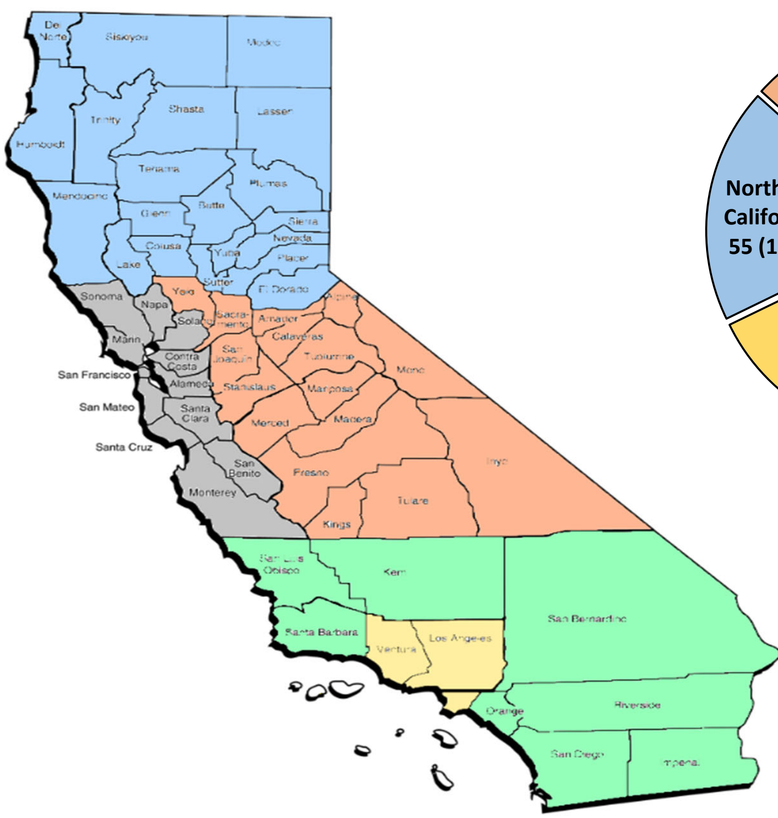


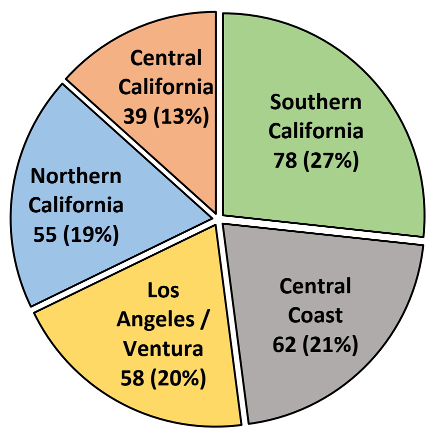




Likewise, looking at the localities from where HELP II borrowers have come, there is a robust array, measured both by MSSA[1] designation and by geographic region. From the chart to the left, about one in three HELP II loans closed are in a location designated as rural or frontier. From the chart below, 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.

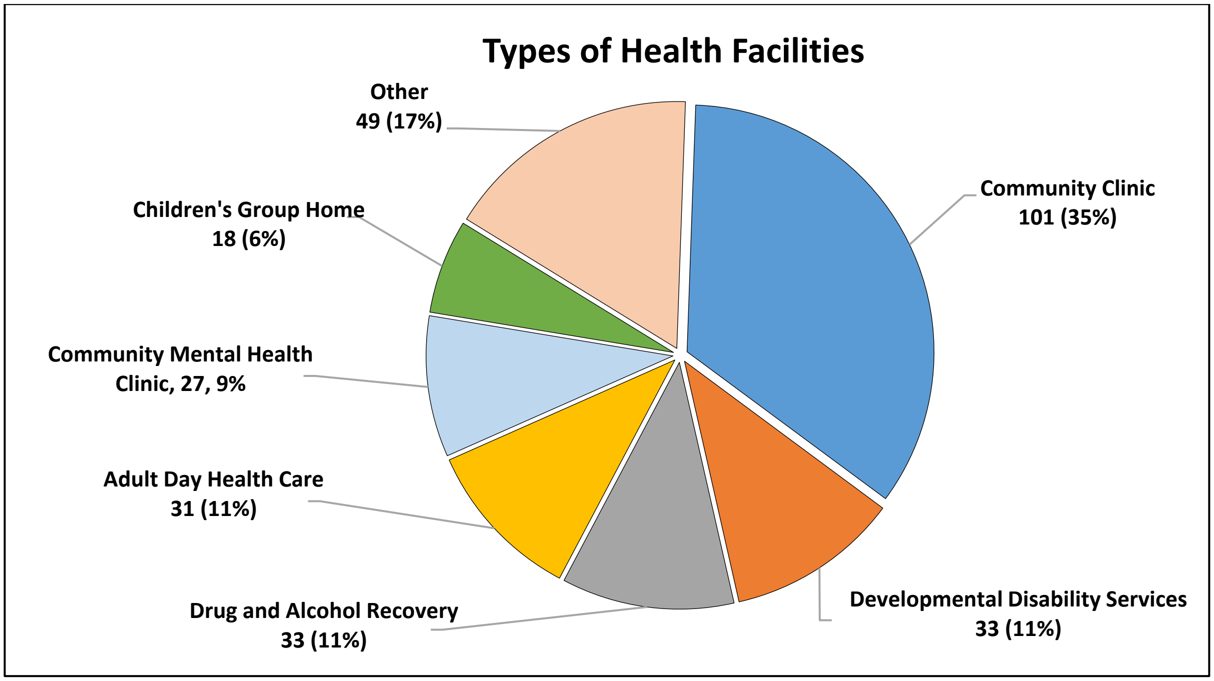
Loans by Geographic Location





[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	Group Home
Acute Psychiatric Hospital	Health Care District
Adult Residential Facility	Helicopter Medical Evaluation Firm
Adult Transitional Program	Indian Clinic
Chronic Dialysis Clinic	Intermediate Care Facility
Community Care Facility	Skilled Nursing Facility
Community Work Activity Program	Residential Treatment Program

Summary of Calendar Year 2022 Financings

In 2022, the Authority approved ten HELP II loans totaling $15,500,000, and closed ten HELP II loans totaling $8,132,750. The following provides a summary of the ten HELP II loans that closed in 2022.

Henrietta Weill Memorial Child Guidance Clinic (Kern County)

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

Loan proceeds were used to finance the purchase of an existing 19,800 square-foot medical facility located in Bakersfield that Henrietta Weill was leasing. The medical facility provides outpatient mental health and dual diagnosis services consisting of group, family, individual therapy, psychiatric and medication support services, and intensive case management.

Silence Aloud, Inc. (Riverside County)

$1,200,000 2%, 20 years

Loan proceeds were used to finance the purchase of a facility located in Moreno Valley to be operated as a community wellness center providing mental and behavioral health services, including counseling, therapy, and substance abuse prevention, for youth ages 12 – 17 and transition age youth ages 18 – 25.

Fred Brown's Recovery Services, Inc. (Los Angeles County)

$911,650 2%, 20 years

Loan proceeds were used to finance the purchase property located in San Pedro to allow for the expansion of its existing Recovery Bridge House program, as well as to expand residential treatment services and withdrawal management services.

$620,350 2%, 20 years

Loan proceeds were used to finance the purchase property located in San Pedro to allow for the expansion of residential treatment services and withdrawal management services.

$468,000 3%, 15 years

Loan proceeds were used to refinance an existing variable rate loan with Cathay Bank and eliminated a balloon payment due in May 2031.

Heritage Group Homes, Inc (Los Angeles & San Bernardino Counties)

$900,000 2%, 20 years

Loan proceeds were used to finance the purchase of a residential facility in Pomona and will be used for permanent supportive housing and mental health services for youth ages 18-26 exiting the foster care system.

$450,000, 2%, 20 years

Loan proceeds were used to finance the purchase of a residential facility in Fontana and will be used for permanent supportive housing and mental health services for youth ages 18-26 exiting the foster care system.

$400,000, 2%, 20 years

Loan proceeds were used to finance the purchase of a residential facility in Rialto and will be used for permanent supportive housing and mental health services for youth ages 18-26 exiting the foster care system.

Fleming and Barnes, Inc. dba Dimondale Adolescent Care Facility (Los Angeles County)

$745,750 2%, 20 years

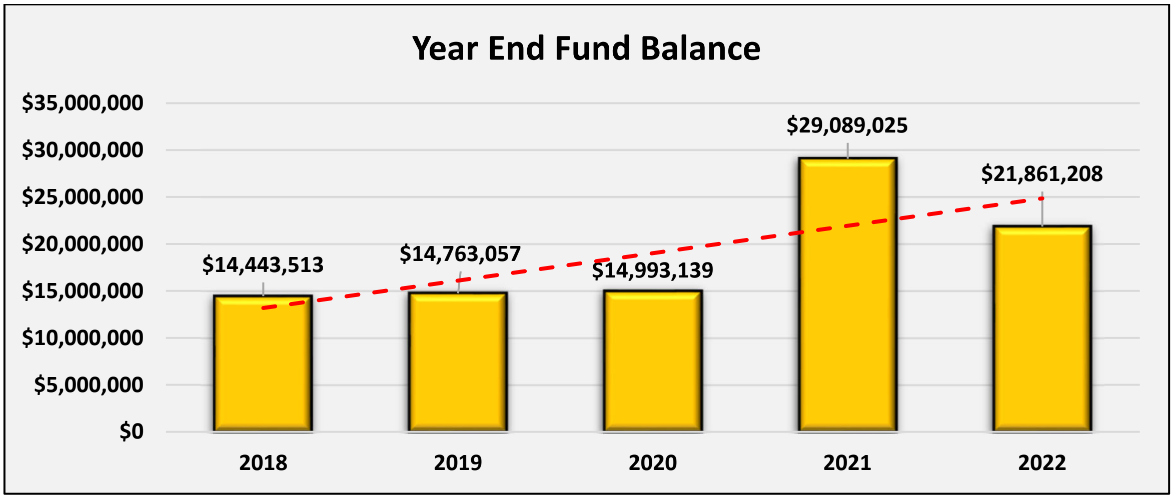
Loan proceeds were used to finance the purchase of property in Torrance to be used as a residential care facility and to expand mental health services.

$437,000 2%, 20 years

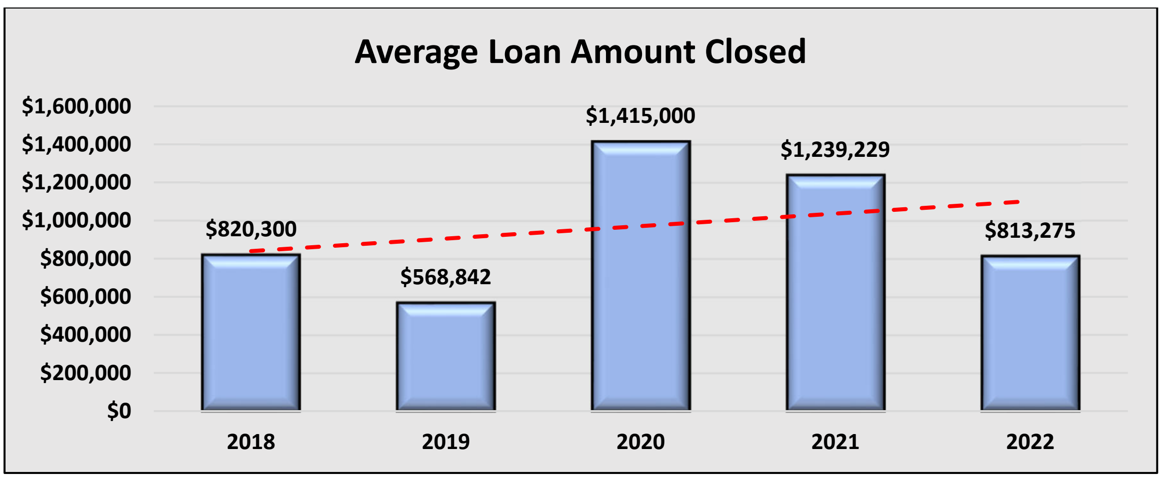
Loan proceeds were used to finance the purchase of property in Lancaster to be used as a residential care facility and to expand mental health services.

Five-Year Trends

The following charts take a more focused look at the past five years, from 2018 through 2022.



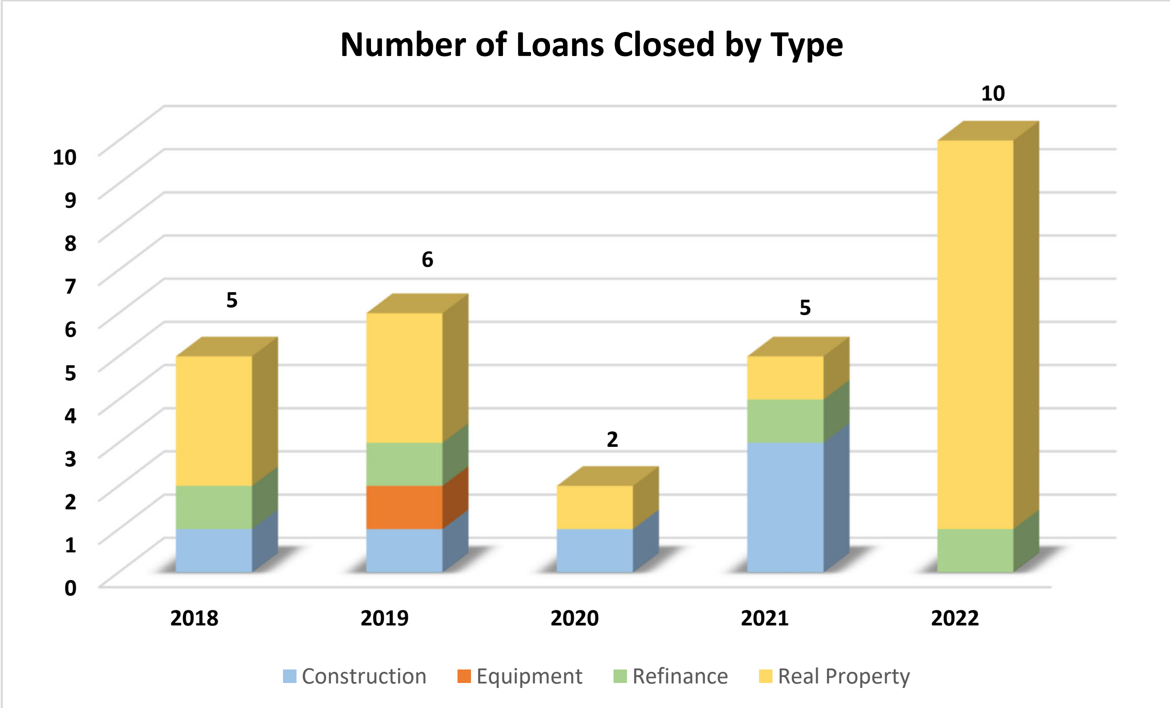
The Year End Fund Balance chart above shows a significant increase in 2021 as the Lifeline Grant Program ended and a little over $10.2 million in excess monies were returned to the HELP II fund. The fund balance then dropped in 2022 as loan activity picked up with more than $8.1 million in loans funded during the year.



The graph above illustrates that, after an initial jump in 2020, there is a clear decreasing trend in the average loan amount closed over the last two years. However, in 2022, a few borrowers used their approved loan funding to purchase multiple properties, which were recorded as separate loans at lower amounts. Loan volume also affected the averages as only two loans were closed in 2020 while ten total loans were closed in 2022.

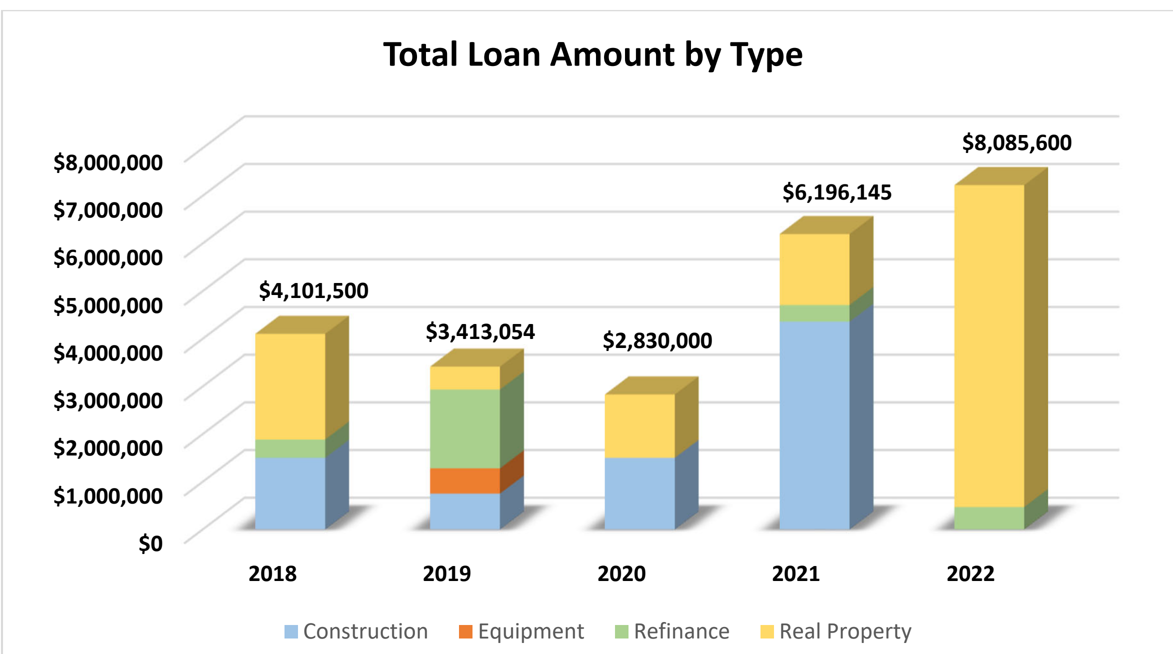
The following information summarizes a typical year for HELP II based on the last five years.

- Average year-end fund balance: $19,029,988
- Average number of loans closed: 6
- Average amount closed per loan: $971,329
- Average total amount closed: $4,934,690



In the last five years, HELP II has closed 28 loans totaling about $24.6 million, and over time, the make-up of those loans varied. In particular, the most utilized loans were real property acquisition loans in 2018, 2019, and 2022, with construction loans being most common in 2021. Overall, this exhibits a strong interest in expansionary projects.

The chart below illustrates the usage of loan funds by the various loan types. As similarly demonstrated in the chart above, a significant portion of loan funds in 2022 were used for property acquisition. The greater interest in property acquisition loans could be due to increasing interest rates at commercial banks while HELP II rates remain low at 2%.



Emergency HELP Loan and HELP II Loan Deferral Programs

In April 2020, the Authority approved the Emergency HELP Loan Program and the HELP II Loan Deferral Program to provide financial assistance to small and rural health facilities impacted by the COVID-19 pandemic. Both programs ended on March 1, 2023, after Governor Newsom ended the COVID-19 State of Emergency, which was originally declared on March 4, 2020.

Emergency HELP Loan Program

This program allocated $5 million from the HELP II fund balance to provide 0% interest rate loans, up to $250,000, for qualifying health facilities.

Below is a brief breakdown of the program overall.

- Total Number of Applications: 8
- Total Amount of Funds Requested: $1,617,049
- Total Number of Loans Approved: 2
- Total Amount of Loans Approved: $500,000

One of the main reasons why there was low interest in the program was due to the increased availability of federal funding. Of the health facilities that did apply, but did not receive funding, applications often failed to be approved due to a lack of proof of COVID-19 impact and its relationship to the request for the loan funds. There were also some health facilities that were ineligible to apply because of their for-profit status.

HELP II Loan Deferral Program

This program allowed current HELP II borrowers affected by the COVID-19 pandemic to request a one-time deferral of HELP II loan debt service payments (principal and interest) for up to three months.

Below is a brief breakdown of the program overall.

- Total Number of Deferral Requests and Approvals: 6
- Total Number of Loans Deferred: 12
- Total Amount Deferred: $111,817.35
- All borrowers requested to defer the maximum of three months

Outlook for Calendar Year 2023

While 2022 experienced the highest number of HELP II loans since 2013 and the greatest amount of HELP II loans since 2008, calendar year 2023 may experience some headwinds. The Federal Open Market Committee raised the federal funds rate seven times in 2022, increasing from a target rate of 0% - 0.25% at the beginning of the year to finishing the year with a target rate of 4.25% - 4.50%. The beginning months of 2023 have seen additional increases, which furthers the attractiveness of HELP II's 2% interest rate for new money projects and 3% for refinancings. However, the increasing federal funds rate has also increased concerns for a possible economic recession beginning sometime in 2023. HELP II is off to a good start though, as a few loans that were approved in 2022 have closed or will close in 2023.