

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
(Authority or CHFFA)**

**Distressed Hospital Loan Program
Loan Modification Application**

Resolution No. 2025-01

January 30, 2025

PURPOSE OF THE REQUEST:

Staff seeks Authority approval of Resolution No. 2025-01 to approve the Distressed Hospital Loan Program (DHLP) Loan Modification Application and delegate authority to the Executive Director and the Deputy Executive Director, in the Executive Director's absence, to approve loan modifications and execute the necessary amendments to the loan documents as part of the loan modification process, solely to the extent that the loan modifications meet the established criteria in the Loan Modification Application and upon the approval by the Department of Health Care Access and Information (HCAI) and the Department of Finance (DOF).

BACKGROUND:

The Distressed Hospital Loan Program was established on May 15, 2023, under Chapter 6 of Statutes of 2023 (Assembly Bill 112) and subsequently amended on July 10, 2023, under Assembly Bill 118 (Chapter 42, Statutes of 2023). The program was designed to support nonprofit and public hospitals in significant financial distress, or governmental entities representing a closed hospital to either prevent the closure or facilitate the reopening of closed hospitals. It provided zero-percent interest loans with a 72-month term and an 18-month payment deferment period to support working capital and prevent hospital closures.

A total of \$300 million in one-time funding was authorized for DHLP, with \$7.5 million reserved for administrative costs. To date, 16 loans have been awarded, totaling \$292.5 million, with two hospitals receiving partial disbursements as shown in Attachment A.

Under Health and Safety Code Section 129384(c)(1), there is provision for HCAI, in consultation with CHFFA and upon approval of DOF, to develop an application and approval process for loan modification or loan forgiveness of the terms of the loan, including a delay of the beginning of the loan repayment period or an extension of the 72-month loan term, or both.

Additionally, under Health and Safety Code Section 129384(c)(2), there is a provision that HCAI shall provide loan forgiveness or modification of loan terms to an applicant based upon criteria determined by HCAI and subject to the approval of HCAI and CHFFA.

LOAN MODIFICATION APPLICATION OVERVIEW:

HCAI, in consultation with CHFFA and upon approval of DOF, developed the Loan Modification Application and the process for loan modifications and presented it to the CHFFA board as an information item at the December 12, 2024, CHFFA board meeting. The loan modification process, as outlined in statute, is designed to offer further support to DHLP borrowers facing ongoing financial struggles. The Loan Modification Application, which consists of a two-step process (as shown in Exhibit A to the Resolution), includes eligibility criteria, criteria for loan modification approval, and the application request and is summarized below:

Step 1: 12-Month Extension of the Loan Payment Deferral Period and Maturity Date

The first step of the Loan Modification Application allows current DHLP borrowers to first apply for a 12-month extension of the payment deferral period and the maturity date. However, no loan can be extended beyond July 1, 2031, given that the sunset date of the program is December 31, 2031. This step is available to borrowers who do not meet at least one of the **Stable Financial Ratios**, listed below, based on their most recent internally prepared financial statements.

- **Greater than 60 Days Cash on Hand, inclusive of all investments and liquid assets that can be used for operations;**
- **Debt Service Coverage Ratio greater than 1.5x, and**
- **Current Ratio greater than 2.0x.**

Step 2: 12-Month Debt Service Forgiveness

Borrowers who have been granted a 12-month extension under Step 1 may subsequently apply for forgiveness of the next 12 months of debt service. Loan forgiveness will only be considered if all of the following conditions are met:

- 1. The borrower utilized its DHLP loan proceeds for Turnaround Plan initiatives.**
- 2. The borrower's financial performance has not improved to meet stabilized financial ratios even after implementing Turnaround Plan initiatives or has worsened due to factors beyond its control.**
- 3. A 24-month financial projection that demonstrates that the borrower will not reach the threshold of Stable Financial Ratios, inclusive of the required debt service payments on the DHLP loan.**

Borrowers seeking approval for Step 2 must first have received approval for Step 1. If loan forgiveness is granted, borrowers are required to submit an application annually to receive continued forgiveness, provided that financial distress persists.

Borrowers applying for either Step 1 or Step 2 must provide justification that, despite best efforts through its Turnaround Plan initiatives outlined in Exhibit E of the Loan and Security Agreement with CHFFA, the borrower remains in financial distress.

Submission of Loan Modification Application:

Borrowers are required to submit a Loan Modification Application at least 90 days, but no more than 120 days, before a loan modification is needed. The review and approval process can take approximately 90 days and will require approval from HCAI, DOF, and CHFFA. If the application is denied for either Step 1 or Step 2, borrowers may reapply after 12 months.

Additionally, Authority staff is recommending delegating approval of Loan Modification Applications for those borrowers that fit within the Authority board preapproved criteria to the Executive Director and/or Deputy Executive Director, to ensure a timely and efficient approval process. Anything outside those criteria would have to come before the Authority board.

A similar delegation was granted to the Executive Director and/or the Deputy Executive Director for approval of the DHLP loans to expediate the approval and disbursement of funds for the DHLP. Additionally, the board has delegated actions to the Executive Director and/or Deputy Executive Director for the Bond Financing Program, the HELP II Loan Program, contracts and past emergency loan programs.

STAKEHOLDER FEEDBACK:

Since the information item was presented to the Authority at the December 12, 2024, CHFFA board meeting, CHFFA and HCAI received feedback, including from the District Hospital Leadership Forum (DHLF) and the California Hospital Association (CHA).

Concerns were raised regarding clarification of the timing of two-step process, the approval process, and eligibility requirements. CHFFA and HCAI have confirmed that borrowers are allowed to reapply for loan modifications, even if the borrower does not qualify in the first year or at any other time. To address concerns regarding the approval time for loan modifications, CHFFA proposed delegating approval to the Executive Director and/or Deputy Executive Director to ensure a timely and efficient approval process.

Additionally, DHLF and CHA requested clarification on the impact of improvements in financial performance, emphasizing that such improvements should not automatically disqualify hospitals, and requested increasing the “Days Cash on Hand” criteria threshold from 60 to 110 days. CHFFA and HCAI confirmed that loan modifications are based on meeting stabilized financial ratios, not based on upward short-term improvements, and confirmed that Step 1 considers only the most recent year to date financial ratios, while Step 2 includes a comprehensive review, and also retained the 60 “Days Cash on Hand” criteria threshold.

NEXT STEPS:

Next steps include the following:

- CHFFA to notify DHLP borrowers of the availability of the Final Loan Modification Application
- DHLP borrowers to apply for loan modifications
- HCAI, DOF, and CHFFA staff to determine approval/denial of loan modification requests based on the approved qualifying criteria in the Loan Modification Application
- CHFFA Executive Director and/or Deputy Executive Director to approve loan modifications upon approval by HCAI and DOF and amend loan documents
- CHFFA Executive Director and/or Deputy Executive to notify the Authority board of approved loan modifications at the following board meeting or soon thereafter

STAFF RECOMMENDATION:

Staff recommends the approval of Resolution No. 2025-01 to approve the DHLP Loan Modification Application and to delegate authority to the Executive Director and/or the Deputy Executive Director, in the Executive Director's absence, to approve loan modifications and execute the necessary amendments to the loan documents as part of the loan modification process, solely to the extent that the loan modifications meet the established criteria in the Loan Modification Application and upon the approval by HCAI and DOF.

ATTACHMENT:

Attachment A: DHLP List of Loan Awards, Monthly Payment Amounts, and Statuses

**California Health Facilities Financing Authority
Distressed Hospital Loan Program**

**List of Loan Awards and Statuses
As of January 30, 2025**

	Borrower Name	Final Loan Award Amount	Status	First Payment Due Date	Monthly Payment Amount	Maturity Date
1	Chinese Hospital <i>San Francisco, CA (San Francisco County)</i>	\$10,350,000	Disbursed – Closed on 11/06/2023	06/01/2025	\$191,666.67	11/01/2029
2	Dameron Hospital <i>Stockton, CA (San Joaquin County)</i>	\$29,000,000	Disbursed – Closed on 01/02/2024	08/01/2025	\$537,037.04	01/01/2030
3	El Centro Regional Medical Center <i>El Centro, CA (Imperial County)</i>	\$28,000,000	Disbursed – Closed on 10/05/2023	05/01/2025	\$518,518.52	10/01/2029
4	Hayward Sisters/St. Rose Hospital <i>Hayward, CA (Alameda County)</i>	\$17,650,000	Disbursed – Closed on 12/06/2023	07/01/2025	\$326,851.85	12/01/2029
5	John C. Fremont Healthcare District <i>Mariposa, CA (Mariposa County)</i>	\$9,350,000	Disbursed – Closed on 01/17/2024	08/01/2025	\$173,148.15	01/01/2030
6	Kaweah Delta Health Care District <i>Visalia, CA (Tulare County)</i>	\$20,750,000	Disbursed – Closed on 02/20/2024	09/01/2025	\$384,259.26	02/01/2030
7	Madera Community Hospital <i>Madera, CA (Madera County)</i>	\$57,000,000	1 st disbursement of \$15,169,918 – Closed on 6/13/2024	01/01/2026	\$280,924.41 (will change with subsequent disbursements)	06/01/2030
8	MLK Jr. Community Hospital <i>Los Angeles, CA (Los Angeles County)</i>	\$14,000,000	Disbursed – Closed on 11/29/2023	06/01/2025	\$259,259.26	11/01/2029
9	Palo Verde Hospital <i>Blythe, CA (Riverside County)</i>	\$8,500,000	Disbursed – Closed on 11/21/2023	06/01/2025	\$157,407.41	11/01/2029
10	Pioneers Memorial Healthcare District <i>Brawley, CA (Imperial County)</i>	\$28,000,000	Disbursed – Closed on 10/30/2023	05/01/2025	\$518,518.52	10/01/2029
11	Ridgecrest Regional Hospital <i>Ridgecrest, CA (Kern County)</i>	\$5,500,000	Disbursed – Closed on 11/29/2023	06/01/2025	\$101,851.85	11/01/2029
12	San Benito Healthcare District / Hazel Hawkins Memorial Hospital <i>Hollister, CA (San Benito County)</i>	\$10,000,000	1 st disbursement of \$2,700,000 – Closed on 07/01/2024	02/01/2026	\$50,000 (will change with subsequent disbursements)	07/01/2030
13	San Geronio Memorial Healthcare District <i>Banning, CA (Riverside County)</i>	\$9,800,000	Disbursed – Closed on 01/18/2024	08/01/2025	\$181,481.48	01/01/2030
14	Sonoma Valley Hospital <i>Sonoma, CA (Sonoma County)</i>	\$3,100,000	Disbursed – Closed on 07/11/2024	02/01/2026	\$57,407.41	07/01/2030
15	Tri-City Medical Center <i>Oceanside, CA (San Diego County)</i>	\$33,200,000	Disbursed – Closed on 11/29/2023	06/01/2025	\$614,814.81	11/01/2029
16	Watsonville Community Hospital <i>Watsonville, CA (Santa Cruz County)</i>	\$8,300,000	Disbursed – Closed on 10/30/2023	05/01/2025	\$153,703.70	10/01/2029
	Total:	\$292,500,000				

RESOLUTION NUMBER 2025-01

RESOLUTION OF THE CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY AUTHORIZING THE APPROVAL OF THE LOAN MODIFICATION APPLICATION AND DELEGATING CERTAIN POWERS TO THE EXECUTIVE DIRECTOR AND/OR THE DEPUTY EXECUTIVE DIRECTOR FOR THE DISTRESSED HOSPITAL LOAN PROGRAM

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by Health and Safety Code Section 129380, et seq, the Distressed Hospital Loan Program (the “Program”), to issue zero-interest cashflow loans for working capital to eligible not-for-profit and public hospitals in significant financial distress or to governmental entities representing a closed hospital to prevent closure or facilitate the reopening of a closed hospital from available moneys in the Program Fund, at the direction of the Department of Health Care Access and Information (the “Department”);

WHEREAS, a total of \$300,000,000 in one time funding was allocated for the Program less administrative costs and \$292,500,000 has been awarded to a total of 16 distressed hospitals pursuant to separate loans made by the Authority to each borrower (the “Original Loans”);

WHEREAS, under the Health and Safety Code Section 129384(c)(1), the Department, in consultation with the Authority and upon approval of the Department of Finance (“DOF”), was tasked to develop an application and approval process for loan modifications or loan forgiveness of the terms of the Original Loans provided by the Authority, including a delay of the beginning of the loan repayment period or an extension of the 72-month loan term, or both;

WHEREAS, under Health and Safety Code Section 129384(c), the Department shall provide loan forgiveness or modification of the Original Loan terms to an applicant based upon criteria determined by the Department and subject to the approval of the Department and the Authority;

WHEREAS, the Department and the Authority have established the terms and conditions associated with approving loan modifications of the Original Loan terms through the development of the Loan Modification Application, attached as Exhibit A, which was approved by the DOF; and

WHEREAS, it is necessary to delegate certain powers and duties to the Executive Director and Deputy Executive Director, in the Executive Director’s absence, to expediate the approval of the Loan Modification Applications and execution of certain documents associated with the approval process for the Loan Modification Applications;

NOW, THEREFORE, BE IT RESOLVED by the California Health Facilities Financing Authority as follows:

Section 1. The Authority hereby approves the Loan Modification Application in substantially the form submitted to the Authority, attached in Exhibit A.

Section 2. The Authority hereby delegates to the Executive Director and the Deputy Executive Director, in the Executive Director's absence, the power to approve the Loan Modification Applications solely to the extent that the Loan Modification Applications meet the criteria therein and subject to approval by the Department and the DOF.

Section 3. The Executive Director and Deputy Executive Director, in the Executive Director's absence, are hereby authorized to execute and deliver any and all necessary documents related to loan modifications, including, but not limited to, amendments to Loan and Security Agreements and Promissory Notes, in accordance with the terms of the Loan Modification Application.

Section 4. The Executive Director and the Deputy Executive Director, in the Executive Director's absence, shall report to the Authority at the next scheduled meeting all Loan Modification Applications approved pursuant to this resolution.

Section 5. This resolution shall be effective until January 1, 2032, unless extended by action of the Authority prior to that date.

Date Approved: _____

**CALIFORNIA HEALTH FACILITIES
FINANCING AUTHORITY (CHFFA)
&
CALIFORNIA DEPARTMENT OF HEALTH
CARE ACCESS AND INFORMATION (HCAI)**



**Distressed Hospital Loan Program
Loan Modification Application**

CHFFA or Authority
901 P Street, Suite 313
Sacramento, California 95814
Phone: (916) 653-2799
chffa@treasurer.ca.gov
<http://www.treasurer.ca.gov/chffa/>

HCAI or Department
2020 W. El Camino Ave. #1231
Sacramento, California 95833
Phone: (916) 319-8800
dhlp@hcai.ca.gov
<http://www.hcai.ca.gov/>

Application and Evaluation Process:

In order to be considered, an applicant:

- must be a borrower with an outstanding loan under the Distressed Hospital Loan Program (DHLP) from the Authority;
- must submit a complete application; and
- must provide justification that despite best efforts through its Turnaround Plan initiatives outlined in Exhibit E of the Loan and Security Agreement with the Authority, the borrower remains in financial distress.

Step 1 of the Loan Modification process is to apply for a 12-month extension of the payment deferral period and of the maturity date of the DHLP loan.

- This is the only option available to applicants in 2025.

If a 12-month extension in Step 1 has been approved and the applicant continues to experience financial distress, then Step 2 of the Loan Modification process is to submit an application for loan forgiveness for the next succeeding 12 months of debt service.

The applicant must reapply each year for additional loan forgiveness if experiencing continued financial distress. This one application is for both steps of a Loan Modification. If Loan Modification is not granted, then a borrower may reapply after 12 months.

When evaluating an application, a set of financial metrics will be utilized as a minimum threshold, referred to as “Stable Financial Ratios.”

The Stable Financial Ratios are as follows:

- Greater than 60 Days Cash on Hand, inclusive of all investments and liquid assets that can be used for operations;
- Greater than 1.5x Debt Service Coverage Ratio; and
- Greater than 2.0x Current Ratio.

Loan Modification Criteria:

Step 1 in the Loan Modification process requires an applicant to first apply for an extension of the payment deferral period and maturity date of the DHLP loan. This application, if approved, will provide a 12-month extension of the payment deferral period and of the maturity date. However, in no event will the maturity date of any DHLP loan be extended beyond 7/1/2031, given that the sunset date of the program is 12/31/2031.

An applicant not meeting at least one of the Stable Financial Ratios, based on the most recent internally prepared year-to-date financial statements, may qualify for Loan Modification depending on the implementation progress of the Turnaround Plan in Exhibit E of the borrower’s Loan and Security Agreement with the Authority.

Step 2 in the Loan Modification process is forgiveness of a portion of the principal amount of the DHLP loan and will only be considered after an extension applied for in Step 1 has been approved. Loan forgiveness, if approved, will be for the next succeeding 12 months of debt service.

Loan forgiveness in Step 2 will be considered if it is determined that all of the following has occurred:

- 1) a borrower's DHLP loan proceeds were utilized for Turnaround Plan initiatives;
- 2) financial performance has not improved to meet Stable Financial Ratios even after implementing Turnaround Plan initiatives, or has worsened due to economic or healthcare marketplace factors outside of the borrower's control; and
- 3) 24-month financial projection and historical and projected financial ratios demonstrate that applicant will be unable to reach the threshold of Stable Financial Ratios, inclusive of the required debt service payments on the DHLP loan.

The applicant must reapply each year for additional loan forgiveness if experiencing continued financial distress.

Submission Instructions:

An applicant must submit an application at least 90 days, but no more than 120 days, before a Loan Modification is needed.

- The applications shall be reviewed as they are received, and
- A Loan Modification shall be granted upon the approval by the Department, the Authority, and the Department of Finance.
- The applicant may be required to attend a public Authority board meeting as part of the approval process.
- The entire process to review and approve an application is expected to take approximately 90 days.
- Any application that is approved will require the applicant to sign documents to effectuate the Loan Modification.

An applicant must submit a complete application to the Authority by email in a Portable Document Format (PDF) attachment to chffa@treasurer.ca.gov. If additional pages are needed to respond to the requirements of the application, the pages must be included with the application at submission.

Please Note:

- The Authority is not responsible for email transmittal delays or failures of any kind.
- All information and documentation submitted as part of the Application package is subject to the Public Records Act.

The Department and the Authority reserve the right to request additional information.

**DISTRESSED HOSPITAL LOAN PROGRAM
LOAN MODIFICATION APPLICATION FORM**

SECTION ONE: SUMMARY INFORMATION

APPLICANT INFORMATION:		
Legal Name (Include DBA Name)		
Street Address	Federal Tax I.D. Number	
City, State & Zip	Contact Person / Title	
County	Telephone Number	Email Address
LOAN MODIFICATION INFORMATION:		
(Select One) <input type="checkbox"/>	Modification Step 1 (12-month extension of payment deferral period and maturity date)	<input type="checkbox"/> Modification Step 2* (forgiveness of next succeeding 12 months of debt service)
*Please Note: To apply for loan forgiveness, the DHLP loan is required to have first received an extension, please provide the Modification Step 1 Approval Date:		
Turnaround Plan Initiative Updates (Please respond to these questions in a separate document and attach to application)		
<ol style="list-style-type: none"> 1. Provide a written explanation of the actions and initiatives implemented to date to turnaround the applicant’s financial performance as explained in Exhibit E of borrower’s Loan and Security Agreement. 2. Provide a detailed list of how DHLP loan proceeds were utilized, and whether there are any unused DHLP loan proceeds that will be utilized in the future. 3. Discuss any variances between the Turnaround Plan and financial projections submitted with the original DHLP application (base case) and the actual actions and initiatives implemented to date. 4. Provide a written narrative describing any changes in ownership, management, bankruptcy filings or other extraordinary events. 5. Explain applicant’s justification for a Loan Modification. 		

SECTION TWO: FINANCIAL STANDING

1. Provide any current, past due, or updated routine reporting requirements per the applicant's Loan and Security Agreement.
2. Provide most recent internally prepared year-to-date financial statements (no more than 45 days old).
3. Calculate the following financial ratios for the most recent internally prepared year-to-date financial statements provided under item two above, per the formulas in the applicant's Loan and Security Agreement:
 - a) Days Cash on Hand;
 - b) Current Ratio;
 - c) Operating Margin;
 - d) Net Cash Runway; and
 - e) Debt Service Coverage Ratio.
4. Describe any changes in the applicant's short and long-term debt since obtaining the DHLP loan, such as additional working capital or other short-term loans or additional long-term debt.
5. Discuss any revenue timing issues that the applicant may be experiencing (e.g. Intergovernmental Transfer Payments or Quality Assurance Fee Program payments).
6. Disclose if the applicant is in technical or payment default with any debt covenants? Please include whether the lender is implementing remedies of default actions.

SECTION THREE: REVISED FINANCIAL FORECAST

Step 1 Loan Modification Requirements:

1. Provide an updated Turnaround Plan describing actions being taken or to be taken by leadership to improve the applicant's financial situation, including whether to cut or eliminate any services.
2. Provide a 24-month cash-flow projection of the applicant's future financial situation, inclusive of full debt service payments on the DHLP loan. Projections must include the following:
 - a) Detailed list of all revenue and expense assumptions used in the forecast.
 - b) DHLP loan debt service payments must be shown as a separate line item on the projection.
 - c) Calculate the following financial ratios throughout the projection period: days cash on hand, debt service coverage ratio, and current ratio.

Step 2 Loan Modification Requirements:

1. Provide an updated Turnaround Plan describing actions being taken or to be taken by leadership to improve the applicant's financial situation, including whether to cut or eliminate any services. If prior Turnaround Plan initiatives did not result in an improved financial situation, then new initiatives must be presented.
2. Provide a 24-month financial projection, including a balance sheet, income statement, and cash-flow projections of the applicant's future financial situation, inclusive of debt service payments on the DHLP loan in an amount that will allow the borrower to reach stable financial ratios. Projections must include the following:
 - a) Detailed list of all revenue and expense assumptions used in the forecast.
 - b) Detailed list of revenue growth and expense reduction initiatives and their financial impact.
 - c) DHLP loan debt service payments must be shown as a separate line item on the projection.
 - d) Calculate the following financial ratios throughout the projection period: days cash on hand, debt service coverage ratio, and current ratio.

SECTION FOUR: APPLICATION CERTIFICATION

An individual with the authority to bind the applicant to an agreement with the California Health Facilities Financing Authority, if a Loan Modification under the Distressed Hospital Loan Program is approved for the applicant, must complete the following certification:

I certify that, to the best of my knowledge, the information contained in this application and the accompanying supplemental materials submitted by the applicant for Loan Modification under the Distressed Hospital Loan Program are true and accurate. I understand that if the applicant is approved for a Loan Modification under the Distressed Hospital Loan Program, the applicant will be required to execute loan documents with the California Health Facilities Financing Authority as well as provide any additional information or documentation that may be required. I further understand that misrepresentations made by the applicant or inaccurate information or documentation provided by the applicant may result in the cancellation of the Loan Modification, if approved, and that the California Health Facilities Financing Authority is authorized to take any additional actions as may be provided under the laws of the State of California.

Applicant Legal Name: _____

By (Print Name)

Signature

Title

Date