CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

HEALTHCARE EXPANSION LOAN PROGRAM II (HELP II)

2023 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 housing market prices 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]

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.

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

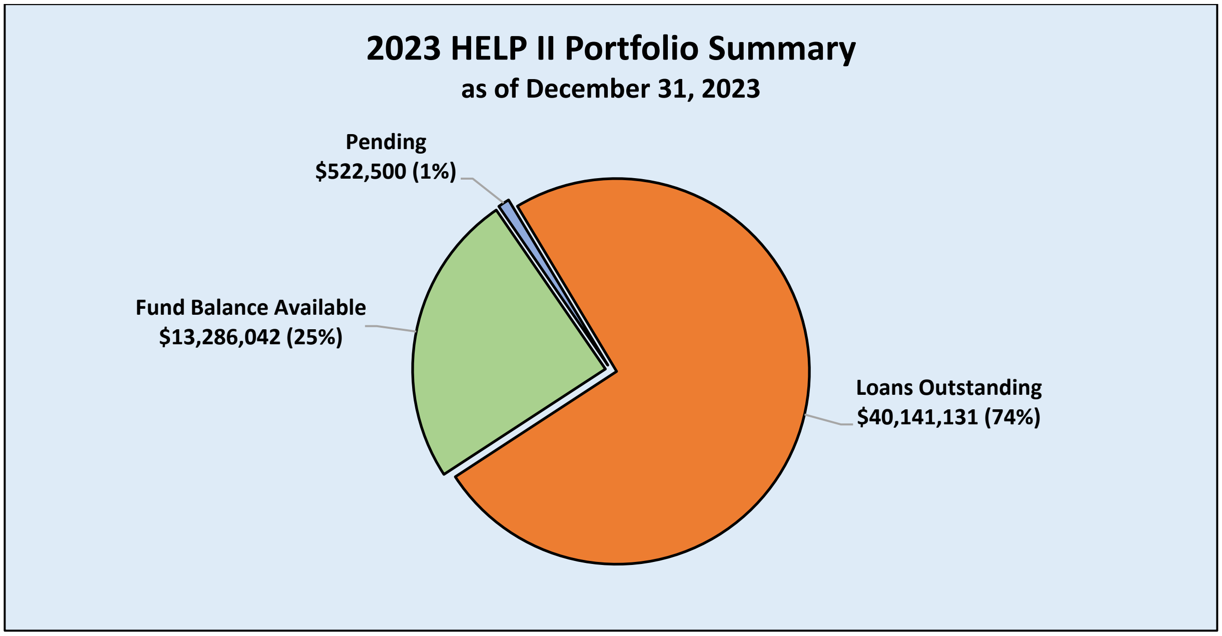
[2] Maximum loan amount for refinancing loans remained at $1,000,000.

[3] Interest rate for refinancing loans remained at 3%.

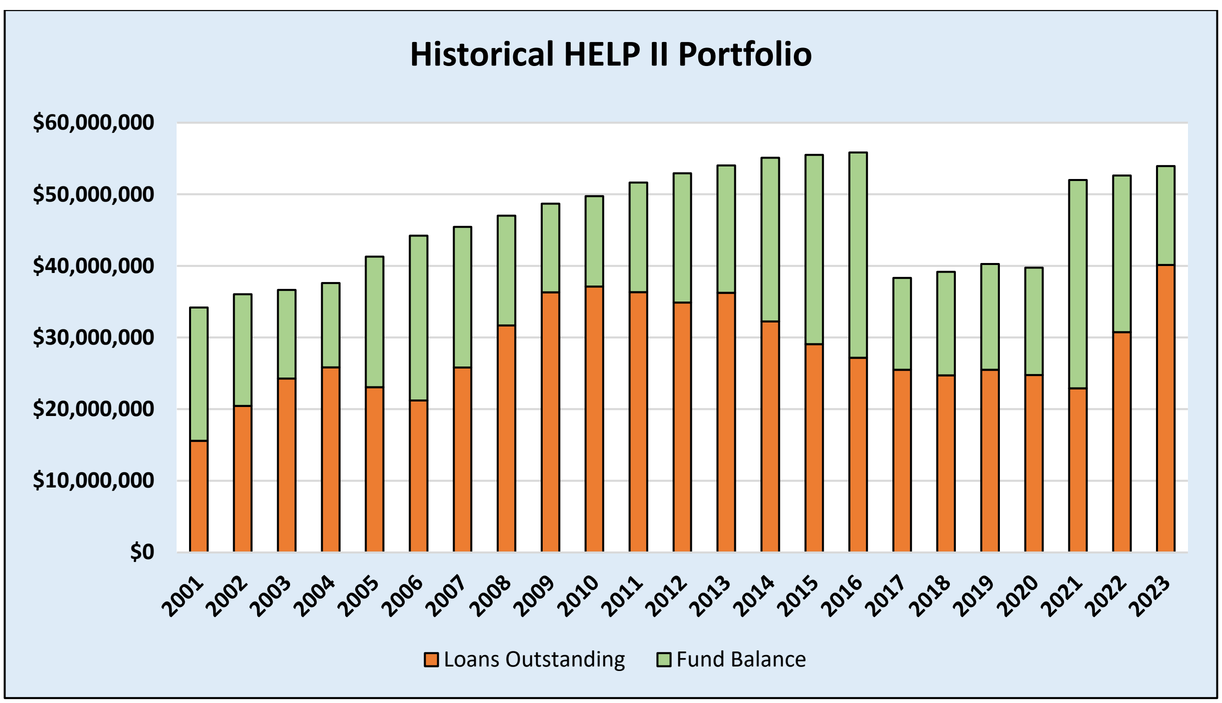
[4] Maximum term for refinancing loans remained at 15 years.

Portfolio

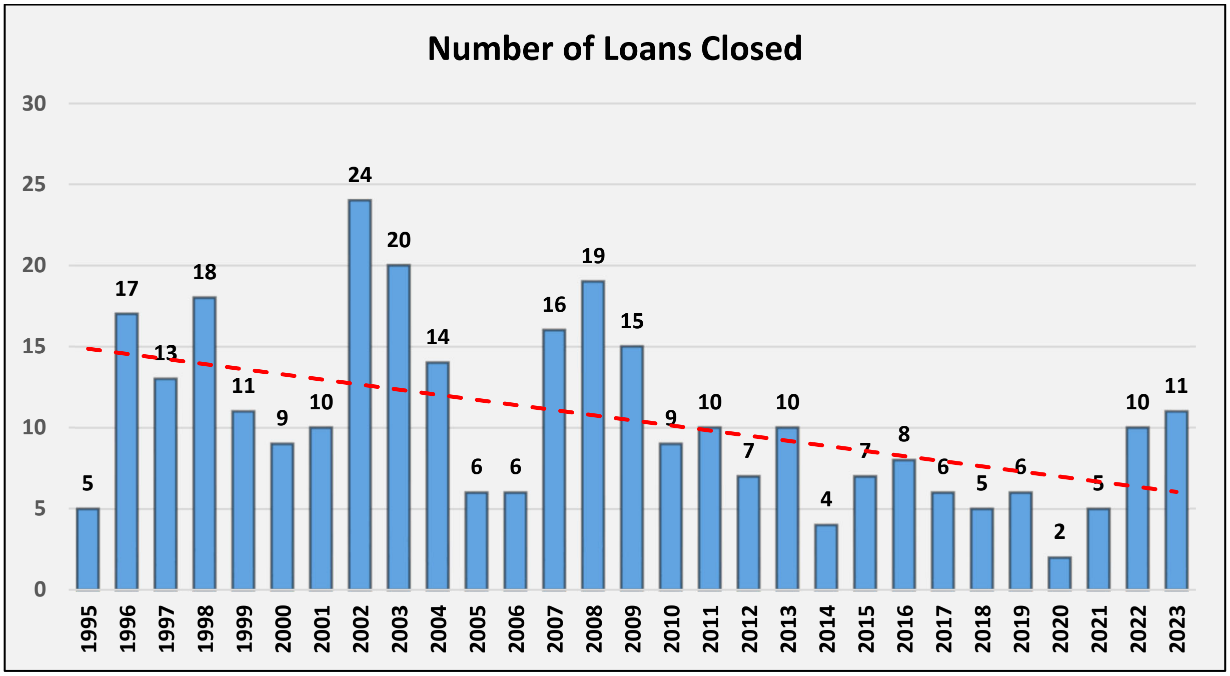
Since 1995, CHFFA has issued 303 loans for an aggregate total of $144.9 million to 193 health facilities with a 0% default rate. As of December 31, 2023, there were 69 active loans with a total outstanding amount of approximately $40.1 million and a total Program portfolio amount of approximately $53.9 million.

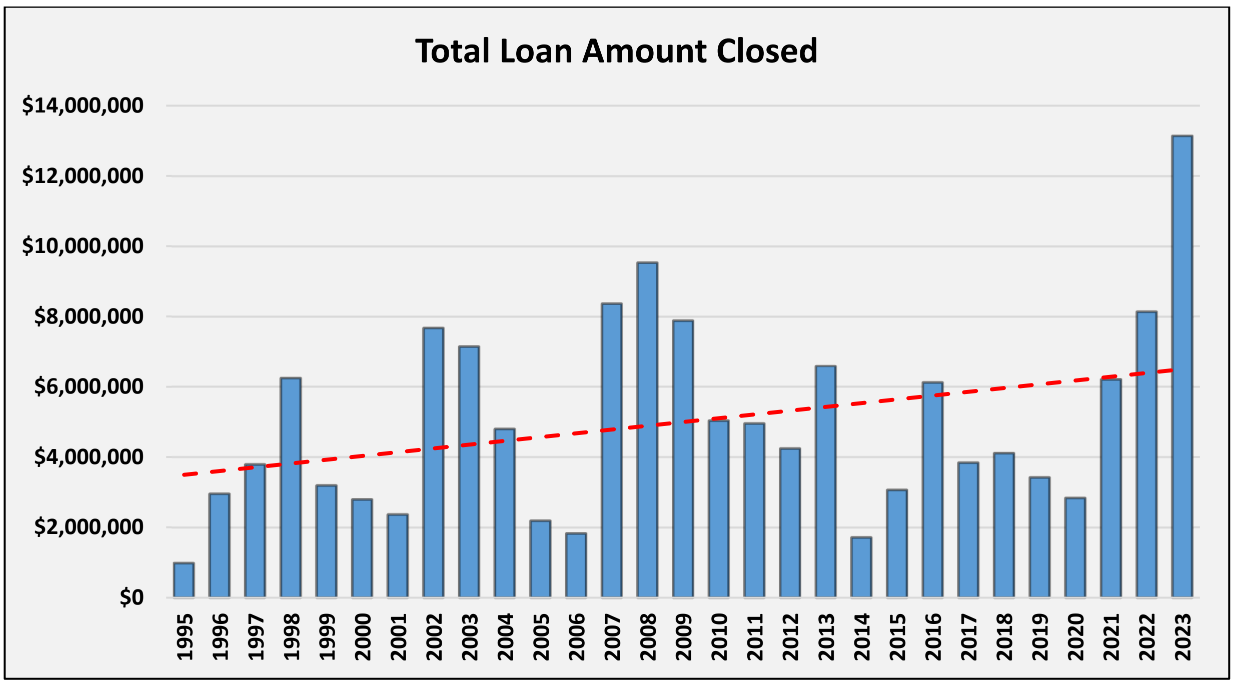


The chart below shows the makeup of the HELP II portfolio from 2001 through 2023. The portfolio demonstrated steady growth through 2016 before dropping in 2017 with the removal of $20 million from the fund balance for the Lifeline Grant Program. A little over $10 million was returned to the fund balance 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 2023.

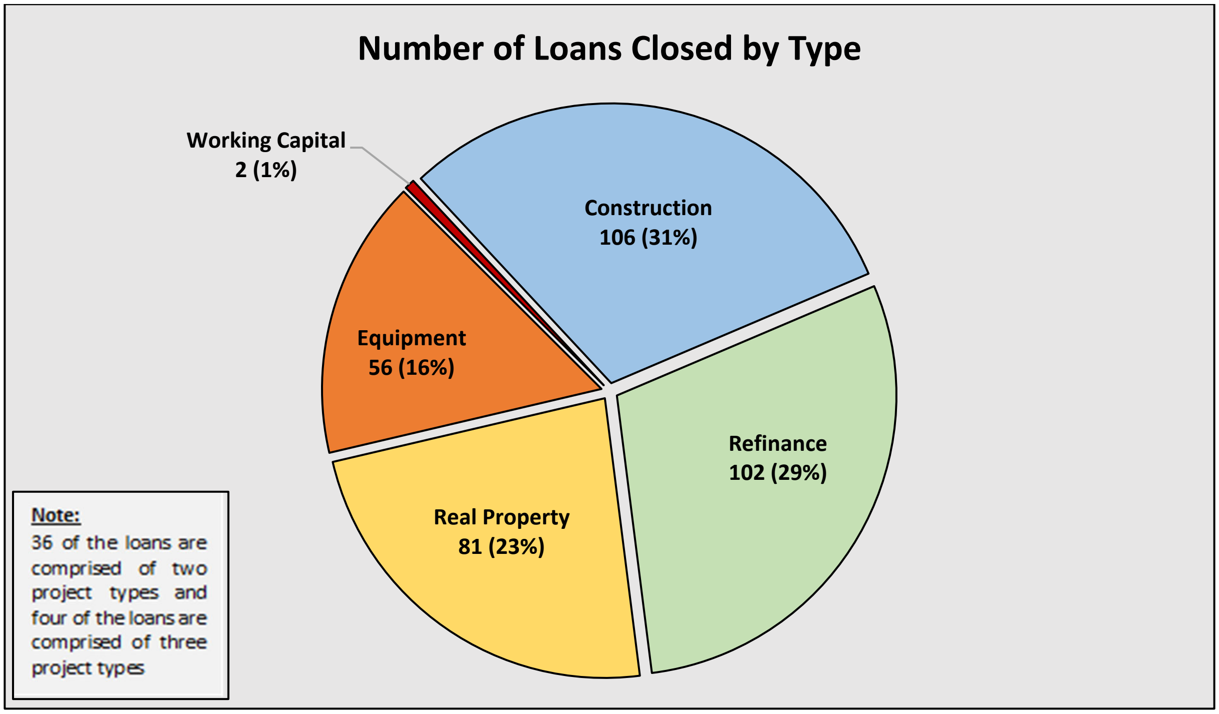


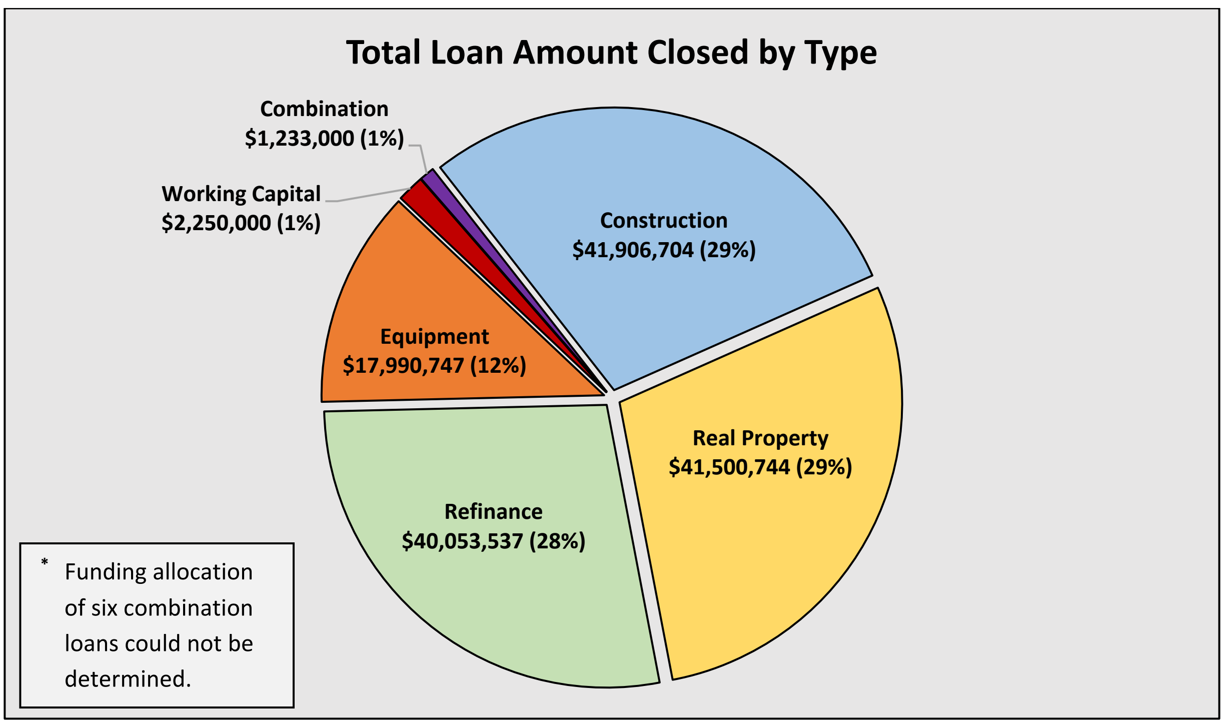


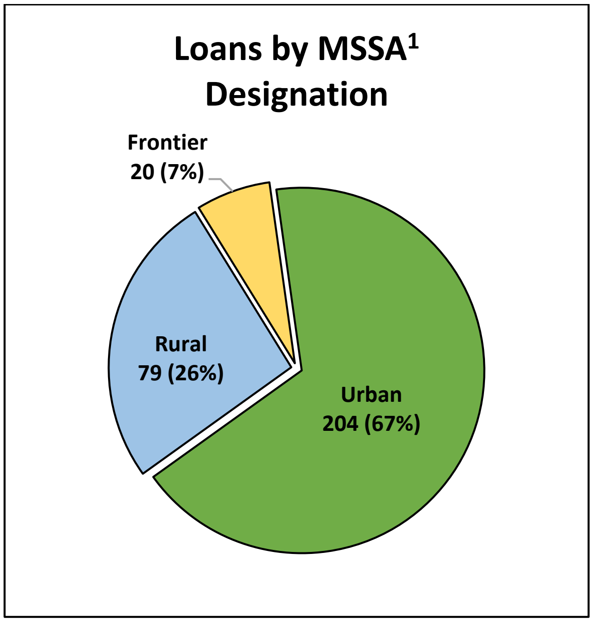
Over the course of HELP II's history, the number of loans closed per year has exhibited a decreasing trend while the total loan amount closed each year has experienced a slightly increasing trend. The diverging trends of these two graphs indicates that the total loan amount closed each year has been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

- Average number of loans closed per year: 10
- Average total loan amount closed per year: $4,997,749

The charts below show the overall breakdown of the types of loans HELP II has funded from 1995 to 2023. 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.

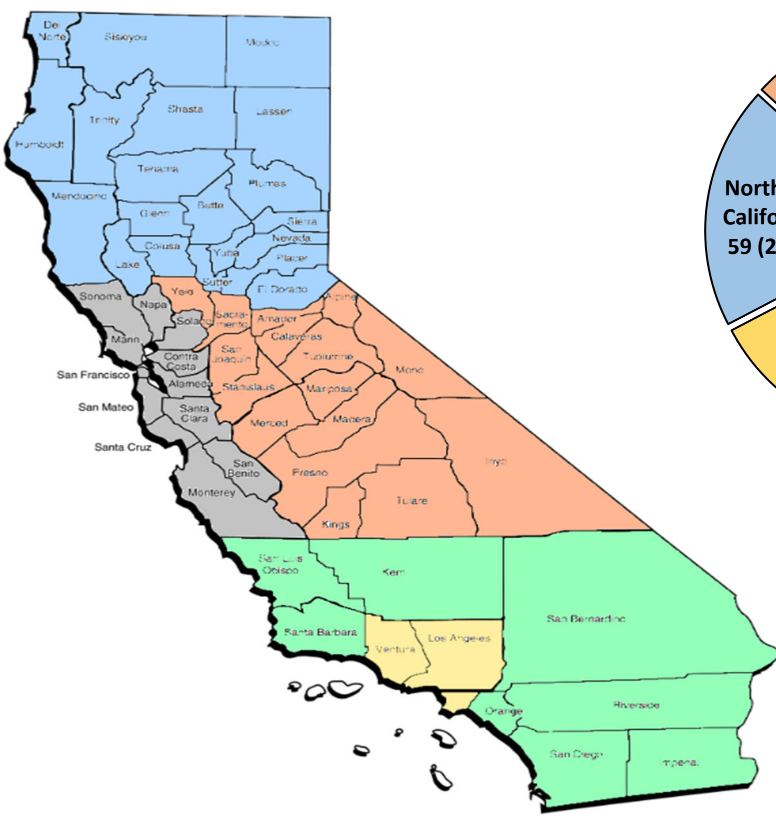


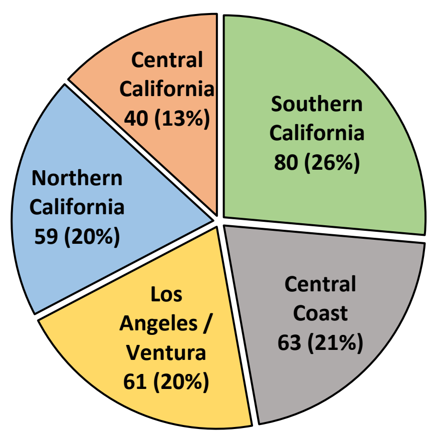




Likewise, looking at the localities from where HELP II borrowers have come, there is a robust array, measured both by MSSA[1] designation and by geographic region. From the chart to the left, about one in three HELP II loans closed are in a location designated as rural or frontier. From the chart below,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

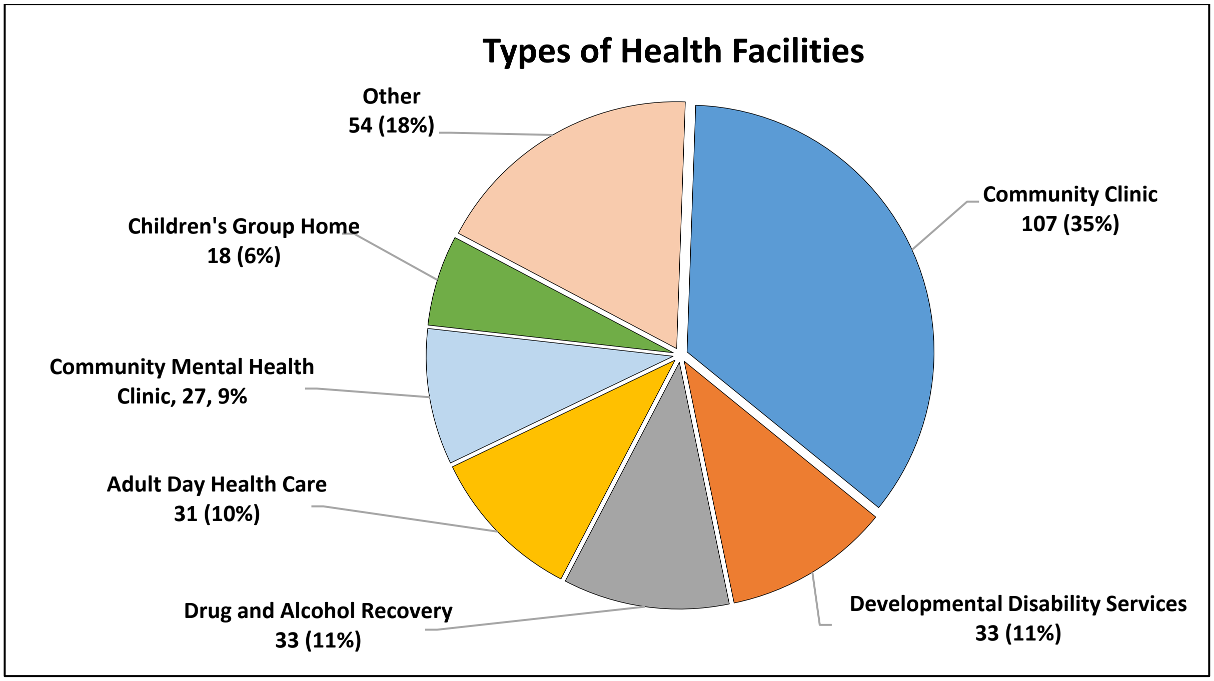
Loans by Geographic Location





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

Summary of Calendar Year 2023 Financings

In 2023, the Authority approved seven HELP II loans totaling $8,828,750 and closed 11 HELP II loans totaling $13,138,039. Four of the 11 loans closed in 2023 were approved in 2022. The following provides a summary of the 11 HELP II loans that closed in 2023.

Southern Humboldt Community Health Care District (Humboldt County)

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

Loan proceeds were used to finance the renovations to the acute care hospital to meet seismic requirements for Non-structural Performance Category (NPC) 3. Buildings in the NPC 3 category are expected to maintain their inpatient population following a moderate earthquake, as well as provide a full array of emergency services to the public.

Chinatown Service Center (Los Angeles County)

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

Loan proceeds were used to finance the purchase of an existing property located in Los Angeles County to expand access to health services around the local community. Chinatown Service Center was also able to leverage funding for the purchase with a grant from the California Natural Resources Agency for approximately $3.3 million, which is being administered through the Los Angeles County Development Authority.

Sonoma Valley Health Care District (Sonoma County)

$2,000,000; 2%; 5 years

Loan proceeds were used to purchase equipment/information technology to replace an inefficient electronic health record system to achieve improved operational efficiencies, bolster productivity, and increase patient satisfaction.

Transitions - Mental Health Association (San Luis Obispo County)

$1,840,000; 2%; 20 years

Loan proceeds were used to purchase a larger residential property in order to relocate its Youth Treatment Program. The new location offers private spaces for one-on-one therapy sessions, staff offices, and recreational flexibility.

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

$1,500,000; 2%; 20 years

Loan proceeds were used to renovate an existing facility to add obstetrical and gynecological (OB/GYN) services and to relocate its pediatric practice within the clinic site to the same floor as the OB/GYN services.

Northern California P.E.T. Imaging Center (Sacramento County)

$1,091,039; 2%; 5 years

Loan proceeds were used to finance the purchase of a positron emission tomography/computed tomography scanner for use at its Rocklin location.

Castle Family Health Centers (Merced County)

$878,750; 2%; 20 years

Loan proceeds were used to finance the purchase of an existing medical office building located adjacent to one of Castle Family's existing clinics that has reached its maximum capacity. The purchase of the new medical building will allow Castle Family to increase its capacity and expand its services.

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

$817,250; 2%; 20 years

Loan proceeds were used to finance the purchase of a property to relocate from its leased facility and to expand its residential care services in Los Angeles County.

Guiding Light Home for Boys (Riverside County)

$598,500; 2%; 20 years

Loan proceeds were used to finance the purchase of a facility located in Riverside County to relocate an existing Short Term Residential Therapeutic Program facility serving both probation and child welfare youth and non-minor dependents ages 14-19.

Northeastern Rural Health Clinics (Lassen County)

$332,500; 2%; 20 years

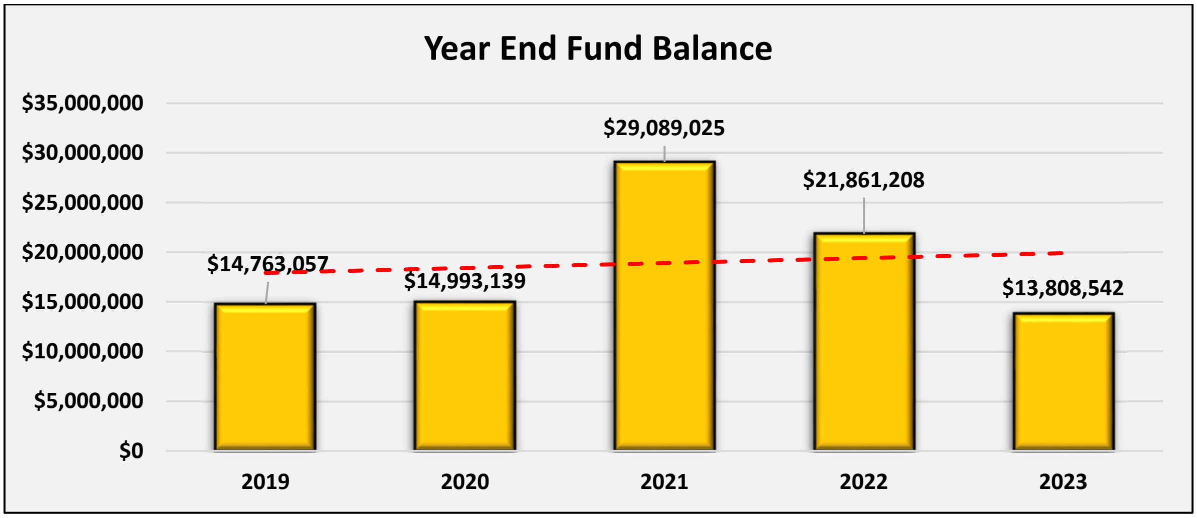
Loan proceeds were used to remove and replace the original 20-year-old boiler for the 27,000 square-foot clinic located in Susanville.

$80,000; 2%; 5 years

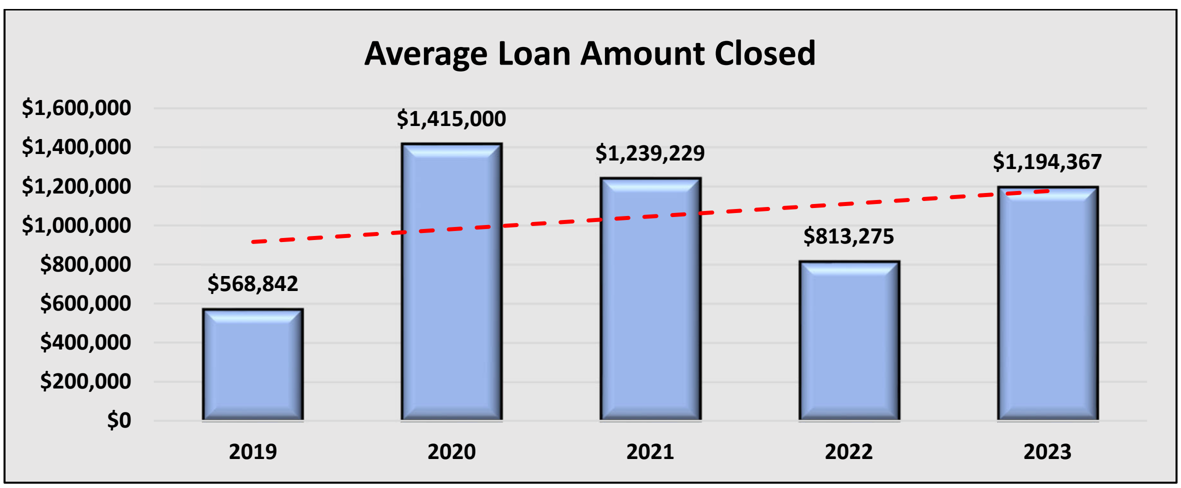
Loan proceeds were used to purchase equipment, including approximately 40 laptops and 30 personal computers, monitors, and stands allowing for faster patient intake and charting.

Five-Year Trends

The following charts take a more focused look at the past five years, from 2019 through 2023.



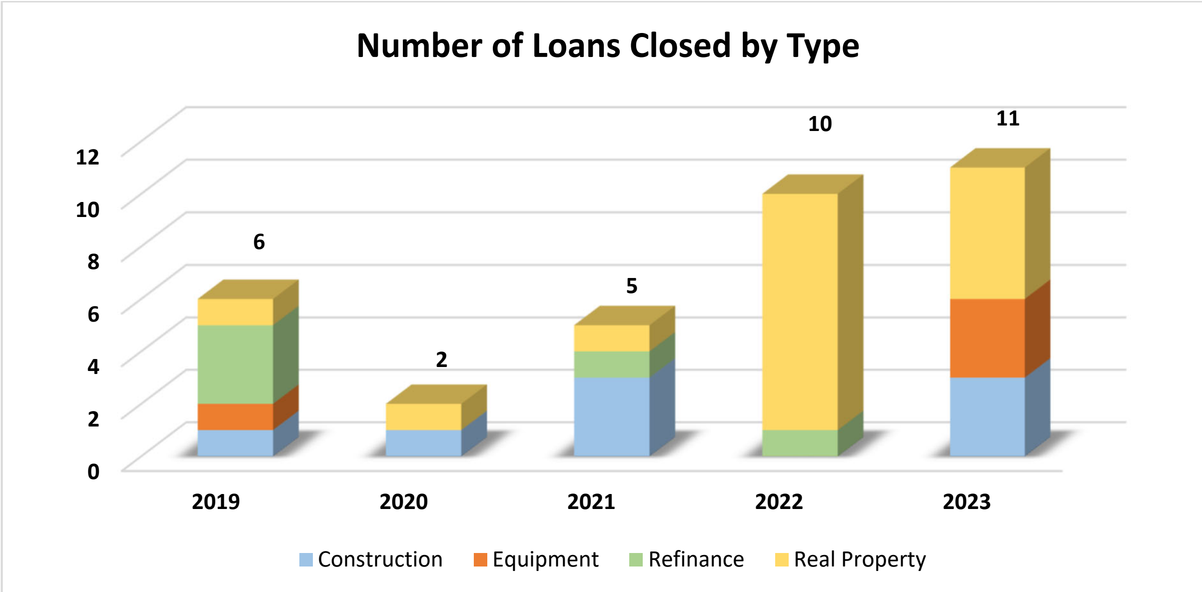
The Year End Fund Balance chart above shows a significant increase in 2021 as the Lifeline Grant Program ended and a little over $10.2 million in excess monies were returned back to the HELP II fund from where they were intially taken. The fund balance then significantly dropped as loan activity picked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



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.

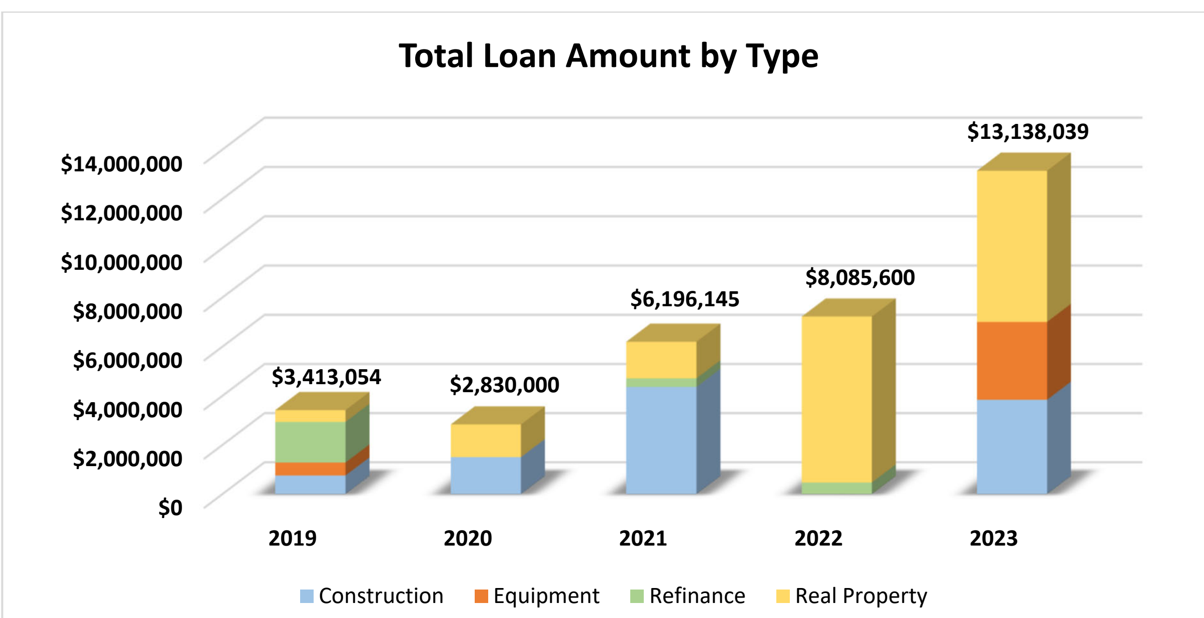
The following information summarizes a typical year for HELP II based on the last five years.

- Average year-end fund balance: $18,902,994
- Average number of loans closed: 7
- Average amount closed per loan: $1,046,143
- Average total amount closed: $6,741,998



In the last five years, HELP II has closed 34 loans totaling about $33.7 million, and over time, the make-up of those loans has varied. In particular, the most utilized loans were for real property acquisition in 2022 and 2023, with construction loans being most common in 2021. In 2019, refinancing loans were the most common with a total of three, while only two refinancing loans were completed over the next four years with one each in 2021 and 2022. 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, nearly half of the loan funds in 2023 were used for property acquisition. The greater interest in property acquisition loans over the past two 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 2024

The 11 loans closed in 2023 marked the second consecutive year HELP II experienced double-digit loan closings, the first time achieving that mark since 2008 – 2009. The $13.1 million in loans closed in 2023 was the greatest amount ever closed and the first time surpassing $10 million in a single year. The Federal Open Market Committee raised the Effective Federal Funds Rate (EFFR) four times in 2023, increasing from a target rate of 4.50% - 4.75% in February to 5.25% - 5.50 % in July, where it has remained since. The higher EFFR has subsequently led to higher commercial rates, which furthers the attractiveness of HELP II's 2% interest rate for new money projects and 3% for refinancings. With a number of loans already approved and pending closing along with applications currently submitted, 2024 is expected to be another busy year.