SENATE RULES COMMITTEE
Office of Senate Floor Analyses
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THIRD READING

Bill No: AB 627
Author: Stefani (D), et al.
Amended: 7/3/25 in Senate
Vote: 21

SENATE HEALTH COMMITTEE: 9-0, 6/11/25
AYES: Menjivar, Valladares, Durazo, Grove, Limón, Padilla, Richardson, Rubio, Wiener
NO VOTE RECORDED: Gonzalez, Weber Pierson

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 76-0, 5/1/25 (Consent) - See last page for vote

SUBJECT: California Health Facilities Financing Authority Act

SOURCE: California State Treasurer Fiona Ma

DIGEST: This bill repeals the requirement that working capital loans made by the California Health Facilities Financing Authority to health facilities be repaid within two years.

Senate Floor Amendments make technical changes and adds a co-author.

ANALYSIS:

Existing law:

1) Establishes the California Health Facilities Financing Authority (CHFFA), consisting of nine members, led by the State Treasurer who serves as the chair, and the executive director, who is appointed by the State Treasurer. States the intent of the Legislature to provide financing to health institutions that can demonstrate the financial feasibility of their projects, and that any savings experienced by the health institution be passed on to the consuming public

through lower charges or containment of the rate of increase in hospital rates. [Government Code (GOV) §15430, et seq.]

2) Permits CHFFA, among other powers, to make secured or unsecured loans to any participating health institution in connection with the financing of a project or working capital. Requires CHFFA to establish financial eligibility standards by studying creditworthiness and earning capacity of each project, together with the amount of pledged revenues, debt service coverage, and basic security. [GOV §15437 and §15438]

3) Defines "participating health institution," for purposes of being able to participate in CHFFA financing mechanisms, as a city or county, a district hospital, or a nonprofit corporation that operates a health facility (which is broadly defined to include clinics, community care facilities, adult day health centers, and other types of settings), and that undertakes the financing of the construction, renovation, furnishing, or equipping of, or financing or refinancing the acquisition of, a health facility. [GOV §15432(e) and (f)]

4) Defines "working capital" as moneys to be used by, or on behalf of, a participating health institution to pay or prepay maintenance or operation expenses or any other costs that would be treated as an expense item, under generally accepted accounting principles, in connection with the ownership or operation of a health facility, including, but not limited to, reserves for maintenance or operation expenses, and interest not to exceed two years on any loan for working capital. [GOV §15432(h)]

5) Requires a participating health institution that is a private nonprofit corporation or association and that borrows money to finance working capital, other than as part of the cost of a project, to repay and discharge the loan within 24 months of the loan date. [GOV §15451.5]

6) Prohibits revenue bonds issued under CHFFA from being deemed to constitute a debt or liability of the state, or a pledge of the faith and credit of the state. Requires bonds issued by CHFFA to contain a statement to the effect that neither the State of California nor CHFFA shall be obligated to pay the principal, or the interest, except from the revenues of CHFFA. [GOV §15443]

This bill:

1) Repeals the limitation that working capital loans offered by CHFFA be only two years in length.

2) Requires CHFFA to establish financial eligibility standards for working capital loans by studying the creditworthiness of a participating health institution, together with the amount of pledged revenues, debt service coverage, and basic security.

3) Prohibits a participating health institution that is determined by CHFFA to be in financial distress from being deemed financially eligible for working capital loans.

4) Makes a legislative finding and declaration that the purpose of this bill is to provide creditworthy nonprofit participating health institutions, cost-effective, future financing tools at their disposal.

Comments

Author's statement. According to the author, this bill will allow CHFFA to provide long-term working capital financings for private, nonprofit health institutions. CHFFA is a conduit issuer of tax-exempt and taxable bonds to nonprofit participating health institutions. The CHFFA Act authorizes the financing of a broad range of project expenditures, including construction, acquisition, and working capital. Working capital expenses cover costs such as salaries and benefits, operating lease payments, debt service payments, and other essential operational expenses. However, working capital financings under CHFFA's Act are limited to a 24-month term. This restriction means that creditworthy health institutions with longer-term working capital needs cannot utilize this type of financing to address their ongoing requirements through CHFFA. This limitation does not apply to other financing entities under the State Treasurer's Office. This bill would provide an important financing tool to ensure that private, nonprofit health institutions in California have the resources necessary, at a time when it is uncertain how federal policies will impact California's health system, to reconfigure income streams and adjust practices and to navigate short-term changes in revenue.

Background

Background on existing CHFFA programs. CHFFA was created to be the state's vehicle for providing financial assistance to public and nonprofit health care providers primarily through loans funded by the issuance of tax-exempt bonds. To this end, CHFFA administers the Bond Financing Program and the Tax-Exempt Equipment Financing Program. CHFFA also provides direct loans to small and rural health facilities through the Healthcare Expansion Loan Program (HELP) II Financing Program. In September of 2021, the Governor signed into law the Nondesignated Public Hospital Bridge Loan Program to enable CHFFA to issue up to $40 million in interest-free, working capital loans to certain hospitals that were affected by financial delays associated with the transition to the Quality Incentive Program. An additional $40 million was allocated as part of the Budget Act of 2022 for a second round of the bridge loans. These Nondesignated Public Hospital Bridge Loans are required to be paid back in two years, and are secured by Medi-Cal reimbursements. Additionally, CHFFA administers several grant programs, including the Children's Hospital Programs, the Community Services Infrastructure Grant Program, and the Investment in Mental Health Wellness Grant Program. Under the Mental Health Wellness grant program, counties can apply for funding to develop a continuum of crisis services to children and youth up to 21 years of age in four categories: crisis residential treatment, crisis stabilization, mobile crisis support teams, and family respite care. There was an initial allocation of about $40 million for this Mental Health Wellness grant program.

By borrowing through CHFFA's tax-exempt bond financing program, health facilities can generally obtain lower interest rates than they would through conventional bonds. The types of facilities eligible for CHFFA financing are government-run or non-profit, licensed health facilities in California, including adult day health centers, community clinics, skilled nursing facilities, developmentally disabled centers, hospitals, and drug and alcohol rehabilitation centers. Proceeds from CHFFA financing may be used for project-related costs, including: construction; remodeling and renovation; land acquisition (as part of the proposed project); acquisition of existing health facilities; purchase or lease of equipment; refinancing or refunding of prior debt; working capital for start-up facilities; costs of bond issuance; feasibility studies; and reimbursement of prior expenses. Under statute, savings resulting from issuance of tax-exempt bonds for borrowers must be transferred to the consuming public through lower or contained costs for delivery of health services. Since its first bond issuance in 1981, CHFFA's bond financing program has issued 639 bonds for an aggregate total of approximately $46 billion, with 275 health facilities availing themselves of this financing.

Background provided by CHFFA. According to CHFFA, working capital financings secured through CHFFA have the potential to provide support to hospitals that need additional financial breathing room to pay for salaries, benefits, debt service payments, lease payments, and other essential operating expenses at a time when it is uncertain how federal policies will impact California's health system. Working capital financing can help hospitals reconfigure income streams and adjust practices and to navigate short-term changes in revenue. However, a major limitation for long-term planning and flexibility is the limited term for which these financings must be repaid (24 months). Compared to financings available through the California Educational Facilities Authority and other financing entities under the State Treasurer's Office (which have no time limit on the repayment period), CHFFA is an underutilized tool due to limitations on financing terms. Applicants usually aim for multi-decade repayment timelines to spread the short-term costs across numerous years. Unfortunately, because CHFFA cannot accommodate these applications, credit worthy health facilities must turn to other lenders who typically have higher costs and are less effective and less transparent, leading to larger overall costs. CHFFA's stakeholders' most requested financing tool was long-term working capital financing.

Related/Prior legislation

AB 2098 (Garcia of 2024) would have extended the repayment period for specified bridge loans for district hospitals, made through CHFFA under authorization and funding from the 2022 Budget Act and which are required to be repaid within two years of the date of the loan, to instead require hospitals to make monthly payments within 24 months of the date of the loan, and for the loan to be repaid within 72 months of the date of the loan. AB 2098 was vetoed by Governor Newsom, who stated, "Hospitals are critical to the health and safety of our communities, and it is a priority of my Administration to assist hospitals that are struggling financially. For this reason, together with the Legislature, we funded the Public Hospital Bridge Loan Program II with $40 million, and we authorized $300 million for the Distressed Hospital Loan Program (DHLP). Many of the hospitals affected by this bill received both. While I support efforts to ensure loan repayment requirements are feasible, this bill would advantage one set of hospital loans above others that did not receive such an extension. Extending the timeline for the repayment will affect our budget structure in the out years, and would be better discussed as part of the annual budget process."

AB 2637 (Schiavo of 2024) was substantially similar to this bill. AB 2637 was vetoed by Governor Newsom, who stated, "Hospitals are critical to the health and safety of our communities, and it is a priority of my Administration to assist hospitals that are struggling financially. For this reason, together with the Legislature, we authorized $300 million for the DHLP to offer zero-interest loans to eligible financially distressed hospitals. While I support efforts to ensure loan repayment requirements are feasible, this bill would result in an open-ended timeframe without any required end date that loans must be repaid. Extending the timeline for the recoupment of CHFFA loans would be better discussed as a part of the annual budget process."

AB 112 (Committee on Budget, Chapter 6, Statutes of 2023), established the DHLP to provide interest free cash-flow loans to not-for-profit hospitals and public hospitals, as defined, in significant financial distress, or to governmental entities representing closed hospitals. Requires HCAI to administer the DHLP and to enter into an interagency agreement with CHFFA to implement the DHLP.

SB 45 (Roth of 2023) would have established the California Acute Care Psychiatric Hospital Loan Fund to provide zero-interest loans to qualifying county applicants for the purpose of constructing or renovating acute care psychiatric hospitals or psychiatric health facilities, or renovating or expanding general acute care hospitals in order to add or expand an inpatient psychiatric unit. SB 45 was held on the Assembly Appropriations Committee suspense file.

FISCAL EFFECT: Appropriation: Yes Fiscal Com.: Yes Local: No

Senate Rule 28.8

SUPPORT: (Verified 7/7/25)

California State Treasurer Fiona Ma (Source)
California Children's Hospital Association
California Hospital Association
California Special Districts Association
California Primary Care Association Advocates

OPPOSITION: (Verified 7/7/25)

None received

ARGUMENTS IN SUPPORT: This bill is sponsored by California State Treasurer Fiona Ma, who states that under federal tax law, it is possible to issue long-term tax-exempt bonds to finance working capital, but the current CHFFA Act includes restrictions that limit bond repayment terms to 24 months for working capital. CHFFA is able to connect nonprofit health institutions with third party investors for capital/infrastructure projects, but the 24-month limit for working capital has severely limited the ability of this financial tool to support health institutions.

The California Hospital Association (CHA) states that this bill would enable CHFFA to serve more effectively as a one-stop shop for hospitals and other providers seeking both short- and long-term financing support. CPCA Advocates states that health centers and clinics operate on very thin margins, and finances are often one of the major challenges that prevent health centers from expanding care, providing salary increases to their existing workforce, and attempting to attract new workforce. This bill would give community health centers more time and flexibility to repay and discharge a loan to address operational expenses. The California Children's Hospital Association states in support that their members face periodic cash flow issues due to the timing of Medi-Cal supplemental payments, and they would greatly benefit from being able to access long-term working capital tax-exempt financing through CHFFA to help support operations.

ASSEMBLY FLOOR: 76-0, 5/1/25
AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, Muratsuchi, Nguyen, Ortega, Pacheco, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Celeste Rodriguez, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas
NO VOTE RECORDED: Chen, McKinnor, Papan

Prepared by: Vincent D. Marchand / HEALTH / (916) 651-4111
7/7/25 16:11:57

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