

## CONCURRENCE IN SENATE AMENDMENTS

CSA1 Bill Id:AB 627 Author:(Stefani)

As Amended Ver:July 3, 2025

Majority vote

**SUMMARY**

Repeals the requirement that working capital loans made by the California Health Facilities Financing Authority (CHFFA) to health facilities be repaid within two years.

**Senate Amendments**

Are technical and clarifying and add a co-author.

**COMMENTS**

*Background.* Fixed capital refers to the assets or investments required to establish and run a firm, such as property or equipment. Working capital is the cash or other liquid assets that a company utilizes to finance day-to-day activities such as payroll and bill payment.

*CHFFA.* 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 (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 II Financing Program.

In September of 2021, the Governor signed into law the Non-designated Public Hospital Bridge Loan Program to enable CHFFA to issue up to \$40 million in working capital loans at zero interest rate to certain hospitals that are affected by financial delays associated with the transition to the Quality Incentive Program. These Non-designated Public Hospital Bridge Loans are required to be paid back in two years, and are secured by Medi-Cal reimbursements.

By borrowing through CHFFA's tax-exempt bond financing program, health facilities can likely obtain rates that are 20% lower than they would through taxable financing options. Generally, 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 are eligible for CHFFA financing. Proceeds from CHFFA financings may be used primarily for capital improvements such as 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. Not for working capital expenses, such as salaries and benefits.

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. CHFFA states that to enforce this requirement, applicants are required to complete a pass-through savings certification as part of its loan application that demonstrates significant community service.

Since its first bond issuance in 1981, CHFFA's Program has issued 646 bonds for an aggregate total of approximately \$47.5 billion, with 275 health facilities availing themselves of this financing.

*Long-Term Bond Financings.* CHFFA serves as a conduit of tax-exempt and taxable bonds under the Program. According to CHFFA, bonds issued by CHFFA are not a debt, liability, or a pledge of the full faith and credit of the taxing power of the state, or any of its political subdivisions, but are payable solely by qualified health facility borrowers ("Borrower" or "Health Facility"). The funding received under the Program is private funding from investors, who are typically sophisticated, and who financially analyze a Borrower's financial position prior to buying bonds and therefore investing in the Health Facility/Borrower. Borrowers are typically rated by Standard & Poor's Financial Services, Moody's Investor Services, or Fitch Ratings, and based on the credit rating of a Health Facility, an investor would require the terms (including the interest rate) to be paid on the bond funds borrowed by the Borrower (similar to how an individual's interest rate on a loan is determined by their credit score). This Program provides funds to hospitals who are creditworthy.

*CHFFA "Competitors."* There are other organizations in California that provide bond financing to health facilities. The California Municipal Finance Authority (CMFA) provides tax-exempt bonds similar to CHFFA. The CMFA provide access to this market for qualified borrowers by acting as the conduit issuer, much the same way CHFFA does. Eligible costs for a CMFA financing may include the purchase of land, project design costs, construction, rehabilitation, improvement, equipment purchase and installation, and legal fees. Up to 2% of the proceeds of a CMFA bond offering may be used to pay the cost of issuing bonds, such as for underwriter's and legal fees. Also, the CMFA can issue taxable bonds to cover any additional costs of issuance or for additional undertakings that are not tax-exempt.

The California Infrastructure and Economic Development Bank (I-Bank) was created in 1994 to finance public infrastructure and private development that promote a healthy climate for jobs, contribute to a strong economy and improve the quality of life in California communities. I-Bank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds. Both of these organizations can and do provide financing to health facilities, only at a higher cost than CHFFA.

According to CHFFA, by issuing long-term working capital financings through CHFFA alongside their infrastructure financings, health institutions would experience cost savings as CHFFA's fee is lower than other conduit issuers, and long-term working capital financings would be included in the original fee for infrastructure financings, which is capped. Additionally, allowing health institutions to utilize the same financing team (underwriters, counsels, and advisors) by lumping together the infrastructure and long-term working capital financings would result in cost savings to health institutions, allowing them to utilize those cost savings toward health care delivery and patient outcomes.

*AB 1888 (Bronzan), Chapter 1426, Statutes of 1987.* AB 1888, among other provisions, permits non-profit private institutions access to CHFFA working capital loans and requires such institutions to repay working capital loans within 15 months. The Department of Finance analysis in opposition to AB 1888 noted that, "Incurring long-term, tax-exempt debt to finance everyday operating (non-capital) expenses is not desirable. Operating expenses should be

financed on a "pay-as-you-go" basis. Otherwise, tomorrow's clients' end up paying costs associated with services provided today."

**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. This limitation does not apply to other financing entities under the State Treasurer's Office. This would provide an important financing tool to ensure that private, nonprofit health institutions in California have the resources necessary to navigate future challenges, including catastrophic events.

**Arguments in Support**

The California Hospital Association (CHA) supports this bill and states that in order to sustain and expand access to high-quality health care services, health care providers sometimes rely on working capital bonds to help finance key aspects of their operations (e.g., salaries, benefits, and leases) and maintain sustainable cash flows. Unfortunately, state law currently restricts CHFFA from issuing such bonds with terms beyond two years, not only limiting the bonds' use and utility, but also causing providers to look elsewhere for long-term working capital finance needs. CHA notes that this bill addresses this problem by allowing CHFFA to issue long-term working capital tax-exempt bonds to nonprofit health institutions. The bill enables CHFFA to serve more effectively as a one-stop shop for hospitals and other providers seeking both short- and long-term financing support. CHA concludes that authorizing CHFFA to issue long-term working capital tax-exempt bonds would align it with other Treasurer's Office financing programs and benefit all participating hospitals, as well as the broader health care ecosystem.

**Arguments in Opposition**

None.

**FISCAL COMMENTS**

According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, negligible state costs.

**VOTES:****ASM HEALTH: 15-0-0**

**YES:** Bonta, Chen, Addis, Aguiar-Curry, Arambula, Carrillo, Flora, Mark González, Krell, Patel, Celeste Rodriguez, Sanchez, Schiavo, Sharp-Collins, Stefani

**ASM APPROPRIATIONS: 15-0-0**

**YES:** Wicks, Sanchez, Arambula, Calderon, Caloza, Dixon, Elhawary, Fong, Mark González, Hart, Pacheco, Pellerin, Solache, Ta, Tangipa

**ASSEMBLY FLOOR: 76-0-3**

**YES:** 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

**ABS, ABST OR NV:** Chen, McKinnor, Papan

## **UPDATED**

VERSION: July 3, 2025

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