CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (Authority)

Update on the Activities of the CEFA COVID-19 Task Force

February 25, 2021

The CEFA/CHFFA COVID-19 Task Force (Task Force) was convened on July 22, 2020 with the goal of prioritizing a list of COVID-19 financing program ideas, estimating the market for these programs, identifying statutory changes needed, and providing input on operational forms. Members on the Task Force include staff from the State Treasurer's Office, the Attorney General's Office, bond counsels, underwriters, financial advisors, and private, higher education associations. The Task Force met twice as a group to cut the original list of 15 potential solutions to a manageable number, and we worked individually with a number of the members to further develop the solution concepts. Eventually, with the Task Force input, this list was reduced to the below five:

- COVID-19 Equipment Loan Program – issue tax-exempt notes with a maturity related to the useful life of the financed equipment. The loan would be collateralized by the equipment purchased. Eligible equipment would include distance learning equipment like interactive boards, cameras, computer networks, and video conferencing software. There also would be a potential to finance the reimbursement of previously purchased equipment under certain circumstances. CEFA has the ability to create this new program under existing statutory authority.

- Refunding Bonds – issue refunding bonds to refinance a prior issue of bonds at a lower rate for debt service savings, to release certain funds held under an indenture, or to modify or eliminate outdated covenants and restrictions. Currently borrowers are only able to issue municipal refunding bonds at a tax-exempt rate in the form of a current refunding (must redeem bonds within 90 days of issuance of the refunding bonds); alternatively, municipal refunding bonds can be issued at a taxable rate as an advance refunding. CEFA would offer two unique opportunities: 1) utilize its Municipal Advisor to find refunding opportunities for our CEFA borrowers and 2) assist with the issuance of taxable municipal refunding bonds. Both opportunities provide savings to borrowers.

- Taxable Conduit Bonds – issue taxable municipal bonds through CEFA, which is already allowed under existing statutory authority. In this case, although a borrower's financing would not qualify for federal tax exemption, the borrower would benefit from state tax exemption certain structuring features afforded by the municipal market. Our analyses have shown that the value of a municipal taxable bond over a corporate taxable bond can be up to a 0.50% lower interest rate.

- Private Placement Lending Program – borrow elects to participate in a program (with access to pre-selected banks and financing professionals) whereby a small group of lenders would provide the private funding for the bond rather than for it to be sold in the public market. Borrowers would benefit from standardized loan documents and due diligence procedures, ensuring faster, easier and less costly execution. CEFA would seek socially-responsible investors that may be willing to lend to CEFA borrowers at below market rates for a new program.

- Pooled Bond Financing Program – the financing needs of multiple borrowers are pooled into a single financing, with a potential lower overall cost of issuance and lower cost of borrowing for each borrower. This may be ideal for smaller or less frequent borrowers looking for the ease of a one-stop program. However, each borrower gives up some autonomy and timing flexibility. CEFA would utilize an experienced team of financing professionals to manage the financing and seek to purchase credit enhancement to address differences in credit quality among the borrowers.

Besides the above programmatic responses to the pandemic, CEFA continues to work with the State Treasurer's Office to pursue the below state and federal legislative efforts that would assist borrowers with COVID-19 relief.

At the state level, Association of Independent California Colleges and Universities (AICCU) representatives also indicated their members were very interested in Working Capital Bonds. Under this concept, the proceeds of a tax-exempt bond would be used to pay "working capital expenditures" in limited circumstances. Working capital expenditures are described as any costs that are not capital expenditures, or expenditures that can be capitalized under federal income tax principles. Since colleges and universities have indicated that they have had some problems covering operating expenses, given reduced revenues as a result of COVID-19, this may be a potential benefits to these health facilities. However, the CEFA Act imposes a requirement that working capital loans be part of larger capital financings, so are unable to be financed on their own. There are no arbitrary limitations on how working capital loans must be linked to capital projects for other State Treasurer's Office boards, commissions, or authorities, nor at the federal level. There are many examples of working capital expenses that may be requested to be reimbursed as a standalone financing. We attempted to see if CEFA could pursue the elimination of this restriction through a Trailer Bill in the 2021-22 Governor's Budget but that was not an option, so we would like to try to get it changed through a standalone bill in the next legislative session as many nonprofit colleges and universities would utilize this program for their COVID-19 expenditures if the restriction was eliminated.

Lastly, the Treasurer continues to lobby at the federal level for two concepts that would provide relief to CEFA's borrowers/nonprofit colleges and universities during this COVID-19 pandemic. First, the Treasurer continues to lobby for the resumption of the ability of governments to issue tax-exempt advance refunding bonds. This would help borrowers/nonprofit colleges and universities take advantage of low interest rates for their infrastructure projects, reducing borrowing costs for much needed projects. Second, the Treasurer continues to lobby for an increase in the small issuer federal exemption that allows banks to deduct 80% of the carrying cost of tax-exempt bonds if they are issued by a small issuer, for public purposes, and if the bonds are designated as qualified tax-exempt obligations. Increasing this exemption to $30 million, pegging it to inflation, and making it apply to the borrower, not the issuer, would increase the demand for municipal debt from banks, thus reducing borrowing costs.

CEFA has submitted a survey, along with information sheets on these five programs (attached), to AICCU and requested that their members provide responses to questions on the amount of COVID-19-related expenditures to date and expected in the future, relative program rankings, likelihood of use of each program, types of projects funded with each program type, expected interest rate for certain programs, expected maturity for certain programs, and timeframe for entering the market for certain programs. This information will be used to determine which programs/concepts to further explore as well as to attract potential sources of funding for the private placement lending and pooled bond financing programs. The expertise of the Task Force will be used to develop these programs, including needed statutory changes, policy documents, and operational forms.

Attachment 1: CEFA COVID-19 Financing Assistance Survey

Attachment 2: COVID-19 Equipment Loan Program Information Sheet

Attachment 3: Refunding Bonds Information Sheet

Attachment 4: Taxable Conduit Bonds Information Sheet

Attachment 5: Private Placement Lending Program Information Sheet

Attachment 6: Pooled Bond Financing Program Information Sheet

Attachment 1

CEFA COVID-19 Financing Assistance Survey

California Educational Facilities Authority (CEFA) has convened a Task Force that aims to expand your financing options through the Authority. This Task Force has come up with five programs, and we are seeking your input on the potential use of these programs. To aid you in your determination, we've provided links in each question to documents that describe these programs and their parameters. Please take the time to answer this survey, and we will make our best efforts to develop those programs that show the most demand.

1. Name of University/College

2. What is the total amount of COVID-19-related expenditures that you have incurred to date?

Operating Expenditures (Working Capital)

Capital Expenditures

3. Would you like to finance any of these COVID-19-related expenditures?

- ◯ Yes
- ◯ No

4. How much additional COVID-19-related expenditures do you anticipate incurring in the future?

Operating Expenditures (Working Capital)

Capital Expenditures

5. Would you like to finance any of these future COVID-19-related expenditures?

- ◯ Yes

Attachment 1

◯ No

6. What is the likelihood that you would use the following programs:

	Extremely Likely	Likely	Neutral	Unlikely	Extremely Unlikely
1. COVID-19 Equipment Loan Program	◯	◯	◯	◯	◯
2. Refunding Bonds	◯	◯	◯	◯	◯
3. Taxable Conduit Bonds	◯	◯	◯	◯	◯
4. Private Placement Lending Program	◯	◯	◯	◯	◯
5. Pooled Bond Financing Program	◯	◯	◯	◯	◯

Other (please specify)

7. Program Ranking

- ☐ COVID-19 Equipment Loan Program
- ☐ Refunding Bonds
- ☐ Taxable Conduit Bonds
- ☐ Private Placement Lending Program
- ☐ Pooled Bond Financing Program

8. What amount would you expect to finance?

COVID-19 Equipment Loan Program

Refunding Bonds

Taxable Conduit Bonds

Attachment 1

Private Placement Lending Program

Pooled Bond Financing Program

9. What would you expect to finance?

COVID-19 Equipment Loan Program (What types of equipment?)

Taxable Conduit Bonds (What types of projects?)

Private Placement Lending Program (What types of projects?)

Pooled Bond Financing Program (What types of projects?)

10. What interest rate would you expect in order to utilize the below programs?

Private Placement Lending Program

Pooled Bond Financing Program

11. What term of maturity would you like to see for your financing under the following programs?

Private Placement Lending Program

Pooled Bond Financing Program

12. When would you expect to go to the market or need the funds for the following programs?

COVID-19 Equipment Loan Program

Refunding Bonds

Taxable Conduit Bonds

Attachment 1

Private Placement Lending Program

Pooled Bond Financing Program

13. Would you like to share your financial information with us so that we can have our financial advisor determine if you are eligible for a refunding?

- ◯ Yes
- ◯ No

14. Would you like staff to contact you to discuss refunding existing debt?

- ◯ Yes
- ◯ No

15. Contact Information

Contact Person Name

Address

Address 2

City/Town

State/Province

ZIP/Postal Code

Email Address

Phone Number

16. Total Gross Revenues

17. If your university/college issued debt in the past, when was the last time you did a financing? If not, please enter N/A.

18. How familiar is your university/college with debt financing?

- ◯ Extremely familiar

Attachment 1

◯ Moderately familiar

◯ Somewhat familiar

◯ Slightly familiar

◯ Not at all familiar

19. If your university/college has a bond rating, please provide your most current rating?

20. Does your university/college already have a financing team (bond counsel, financial advisor, underwriter) that you work with on debt financing?

◯ Yes

◯ No

21. General Comments, Program Ideas and Suggestions

Done

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA)
COVID-19 EQUIPMENT LOAN PROGRAM

CEFA PROGRAM

CEFA used to have an established program (the Simplified Equipment Financing Program) that provided eligible private, nonprofit higher education facilities access to tax-exempt fixed rate or variable rate financing for equipment purchases. A borrower under this program was able to fund qualifying equipment purchases of $100,000 or more. Funds were able to be used to purchase or reimburse all types of qualifying equipment by a private, nonprofit higher education facility, including information technology, energy and water conservation, audio-visual equipment, and equipment installation costs as long as those costs were capital costs. The loans were collateralized by the equipment that was purchased.

THE OPPORTUNITY: CREATE A NEW COVID-19 EQUIPMENT LOAN PROGRAM

Using the basic model of the previous program, CEFA is considering establishing a new COVID-19 Equipment Loan Program with an abridged application form and lower application fees for colleges and universities to pay for the cost of purchasing information technology equipment to enable them to continue their services in the face of the COVID-19 pandemic. Such equipment may include distance learning equipment like interactive boards, cameras, computer networks, and video conferencing software.

WHO CAN BORROW

In order to meet the requirements for CEFA financing, a borrower must meet the following eligibility criteria:

- ☐ Be regionally accredited by the Western Association of Schools and Colleges;
- ☐ Be a private, non-profit, post-secondary degree granting educational institution located in California or that has educational facilities in California;
- ☐ Offer a broad curriculum in secular subjects;
- ☐ Have been operating for a minimum of three years and provide three years of audited financial statements; and
- ☐ Have revenue sufficient to cover debt service on the proposed financing.

WHAT CAN BE FINANCED

Equipment used for distance learning purposes including, for example, information technology, energy and water conservation, and audio-visual equipment and equipment installation costs as long as those costs are capital costs. Borrowers must have sufficient certainty regarding the location of such equipment to satisfy the "TEFRA" requirements under federal tax law. In addition, in order for a borrower to be eligible for reimbursement of previously purchased equipment it would have had to adopt a reimbursement resolution within 60 days after the date the expenditure was made (See pages 3-4 for example).

AMOUNT AND TERM OF FINANCING

No upper limit on the amount of financing. The term would be related to the useful life of the equipment to be financed.

FINANCING FEES

CEFA will charge a 0.075% initial fee of the par amount of the debt issuance and no application fee nor annual fee for COVID-19 related financings and a 0.05% initial fee of the par amount of the debt issuance and a $1,000 flat annual fee with no application fee for a longer term equipment program. Other financing costs include legal, placement agent, and financial advisor fees. Examples of the fees for the first year of a debt issuance with a par amount of $10 million are below.

Program	Issuance Amount	CEFA Initial Fee	CEFA Annual Fee
COVID-19 Equipment Loan Program	$10 million	$7,500	$0
Equipment Loan Program	$10 million	$5,000	$1,000

APPLICATION

Simple, abridged loan application.

DECLARATION OF OFFICIAL INTENT OF
SMITHVILLE MEDICAL CENTER
TO REIMBURSE CERTAIN CAPITAL EXPENDITURES
FROM PROCEEDS OF INDEBTEDNESS

WHEREAS, Smithville College (the "Corporation") intends to acquire, construct, renovate, improve, and equip the following projects:

1. Parking Garage, paving of existing parking lots, new construction and site work located on and adjacent to the campus.
2. Land purchase, site work and construction of Jones Village Graduate Residences and equipment located on one of several sites on Main Street, Smithville adjacent to the campus.
3. Renovation of several academic facilities located on the campus located at Smithville, California.
4. Information Technology Infrastructure, hardware, software and wiring for Smithville College's locations.
5. Capital equipment replacements for the campus located in Smithville, California.
6. Renovation of elevators, located at the campus located in Smithville, California.
7. General plant improvements for the campus located in Smithville, California.
8. Seismic planning for entire campus and construction of office space to meet seismic requirements located in Smithville, California.

WHEREAS, the Corporation expects to pay certain capital expenditures (the "Reimbursement Expenditures") in connection with the Projects prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis; and

WHEREAS, the Corporation reasonably expects that debt obligations in an amount not expected to exceed $50,000,000 will be issued and that certain of the proceeds of such debt will be used to reimburse the Reimbursed Expenditures; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Corporation to declare its reasonable official intent to reimburse prior expenditures for the Project with proceeds of a subsequent borrowing; and

WHEREAS, proceeds of such debt obligations will be allocated to reimbursement expenditures no later than 18 months after the later of (i) the date the cost is paid, or (ii) the date the Project (or each component thereof) is placed in service or abandoned (but in no event more than three years after the cost is paid);

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Corporation as follows:

Section 1. The Board of Directors of the Corporation finds and determines that the foregoing recitals are true and correct.

Section 2. This declaration is made solely for purposes of establishing compliance with the requirements of Section 1.150-2 of the Treasury Regulations. This declaration does not bind the Corporation to make any expenditure, incur any debt or proceed with the Project.

Section 3. The Corporation hereby declares its official intent to use the proceeds of indebtedness to reimburse itself for Reimbursement Expenditures.

Adopted: November 1, 2020

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John Doe, Secretary

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA)
REFUNDING BONDS

CEFA PROGRAM

CEFA's Bond Financing Program provides eligible private, non-profit higher education facilities access to the capital markets through the issuance of tax-exempt and taxable revenue bonds at a lower cost. Proceeds from a borrowing under the CEFA Bond Financing Program may be used by eligible borrowers to fund new construction or renovation projects, land acquisition for future projects, acquisition of facilities, refinancing of outstanding bonds, working capital for start-up facilities, and costs of issuance, among other purposes.

THE OPPORTUNITY: CREATE SAVINGS THROUGH REFUNDING BONDS

Refunding bonds are issued to refinance a prior issue of bonds at a new lower borrowing rate and/or under a new financing structure. Refunding bonds are typically issued to achieve debt service savings on outstanding bonds. Refundings also may be used to release certain funds held under an indenture, or to release or defease the lien of the indenture and thereby modify or eliminate outdated or burdensome bond covenants or other restrictions. Generally, the desired result of a refinancing is reduced debt service payments, more favorable borrowing terms or risk reduction.

Refunding bonds are characterized as either a "current" or an "advance" refunding. A current refunding is one in which the outstanding (refunded) bonds are redeemed within 90 days of the issuance date of the refunding bonds and can be executed on a **tax-exempt** basis. An advance refunding is one in which the outstanding (refunded) bonds are redeemed more than 90 days after the refunding bonds are issued (i.e. 1-year prior) and can be only be executed on a **taxable** basis. Changes to federal tax law in late 2017 eliminated the ability of governments to issue tax-exempt advance refunding bonds.

The CEFA Bond Financing Program offers borrowers two unique opportunities regarding the issuance of refunding bonds:

- **Municipal Advisor Resources to Identify Refunding Opportunities:** CEFA utilizes the services of an experienced municipal advisor, KNN Public Finance, on financings issued under its authority. CEFA will be using its municipal advisor to look at publicly available college/university debt information to determine the costs and benefits of refunding outstanding bonds on a tax-exempt and taxable basis, and estimate potential refunding savings under varying market conditions. Staff would then contact colleges/universities with substantive potential cost savings outcomes to discuss utilizing CEFA's Bond Financing Program to refund those bonds.
- **Execution Benefits for Taxable Refunding Bonds:** In today's low interest rate environment, a large volume of taxable advance refunding bonds are being issued to refinance outstanding tax-exempt bonds prior to their call date. As such, taxable advance refunding bonds often incorporate "municipal style" structuring features to mirror the structure of the bonds that are being refunded. Through dialogue with the bond

underwriting community, we have determined that borrowers may enjoy a pricing advantage by issuing taxable bonds with "municipal style" features (modest par size, amortizing maturity structure, and par call feature) through the CEFA Bond Financing Program rather than under a stand-alone corporate style offering. Between the value of utilizing a municipal CUSIP and having a State of California tax-exemption, underwriters have indicated that a borrower's pricing yields could be lower by 10 – 50 basis points (or 0.10% to 0.50%) when issued through the CEFA Bond Financing Program and the municipal taxable market versus through a stand-alone corporate issuance. SEE RELATED CEFA BOND FINANCING PROGRAM OPPORTUNITY: TAXABLE CONDUIT BONDS.

WHO CAN BORROW

In order to meet the requirements for the CEFA Bond Financing Program, a borrower must meet the following eligibility criteria:

☐Be regionally accredited by the Western Association of Schools and Colleges;

☐ Be a private, non-profit, post-secondary degree granting educational institution located in California or that has educational facilities in California;

☐Offer a broad curriculum in secular subjects;

☐Have been operating for a minimum of three years and provide three years of audited financial statements; and

☐Have revenue sufficient to cover debt service on the proposed financing.

WHAT CAN BE REFINANCED

Any outstanding municipal bonds or other eligible debt.

AMOUNT AND TERM OF REFINANCING

No upper limit on the amount of refinancing. Terms of up to 40 years, subject to the useful life of what is being financed.

FINANCING FEES

CEFA will charge an initial fee, starting at 0.15% of the par amount of the bond issuance, and falling to 0.05% on amounts above $10 million (capped at $75,000). Annual fee of 0.015% of the outstanding amount (annual maximum of $12,000 in total). Other financing costs include legal, financial advisor, and trustee fees. Examples of the fees for the first year of a bond issuance with a par amount of $100 million are below. Over time, the annual fee would decrease because CEFA assesses it based on the outstanding bond amount, not the original par amount.

Applicant Type	Issuance Amount	CEFA Initial Fee	CEFA Annual Fee
Private, Non-profit Higher Education Facility	$100 million	$75,000	$12,000

APPLICATION

Simple loan application.

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA) TAXABLE CONDUIT BONDS

CEFA PROGRAM

CEFA's Bond Financing Program provides private, non-profit higher education facilities access to the capital markets through the issuance of tax-exempt and taxable revenue bonds at a lower cost. Proceeds from a borrowing under the CEFA Bond Financing Program may be used by eligible borrowers to fund new construction or renovation projects, land acquisition for future projects, acquisition of facilities, refinancing of outstanding bonds, working capital for start-up facilities, and costs of issuance, among other purposes.

THE OPPORTUNITY: ISSUE TAXABLE BONDS THROUGH CEFA TO SAVE BORROWERS MONEY

Borrowers are accustomed to utilizing the CEFA Bond Financing Program to issue *tax-exempt* bonds, affording a lower cost of borrowing due to the advantage of receiving both federal and state tax exemption on the offering.

Historically, higher education borrowers also commonly rely on taxable bonds to meet certain capital and operating needs. Additionally, the volume of taxable bond issuance has skyrocketed in recent years due to the elimination of tax-exempt advance refunding bonds in the Tax Cuts and Jobs Act of 2017. An October 2020 Nuveen study found that taxable municipal bond issuances grew 227% from September 30, 2019 to September 30, 2020. The growth in taxable municipal issuance was found to be closely related to an increase in refinancings after the 2017 Act. Thanks to historically low taxable interest rates, many higher education issuers are now utilizing taxable advance refunding bonds to achieve significant debt service savings.

Based on current market conditions, eligible borrowers may be able to reduce debt service costs by issuing *taxable* bonds through the CEFA Bond Financing Program, rather than under a stand-alone corporate-style offering. Although there are some disadvantages, like continuing disclosure obligations, there are some advantages to issuing bonds through CEFA, including the following:

- **Municipal CUSIP:** Under the CEFA Bond Financing Program, a borrower could utilize a municipal CUSIP on the offering. This is particularly valuable if a borrower is pursuing a "municipal-style" offering (modest par size, amortizing maturity structure, and par call feature) for either taxable new money or advance refunding bonds. Because corporate bond buyers are more accustomed to large, liquid single maturity offerings, a "municipal-style" offering may be better received by municipal bond investors under the CEFA Bond Financing Program with a municipal CUSIP. Bond underwriters have estimated the potential benefit of a "municipal style" taxable offering with a municipal CUSIP to be between 10 – 50 basis points (0.10% to 0.50% lower in interest rate) versus a hypothetical identical bond utilizing a taxable corporate CUSIP.
- **State Tax Exemption:** Taxable offerings issued under the CEFA Bond Financing Program will be federally taxable but will benefit from State of California tax-exemption. State tax-exemption can be advantageous for investors and thereby to borrowers in achieving lower rates. The estimated benefit is approximately 5 basis points versus a hypothetical identical bond without the tax benefit.

Savings Approximation Schedule

Applicant Type	Issuance Amount	Maturity	Interest Cost Reduction	Saved Interest Cost over the Life of the Financing
Private, Non-profit Higher Education Facility	$100 million	30 years	25 basis points or 0.25%	$5 million

WHO CAN BORROW

In order to meet the requirements for the CEFA Bond Financing Program, a borrower must meet the following eligibility criteria:

- ☐ Be regionally accredited by the Western Association of Schools and Colleges;
- ☐ Be a private, non-profit, post-secondary degree granting educational institution located in California or that has educational facilities in California;
- ☐ Offer a broad curriculum in secular subjects;
- ☐ Have been operating for a minimum of three years and provide three years of audited financial statements; and
- ☐ Have revenue sufficient to cover debt service on the proposed financing.

WHAT CAN BE FINANCED

New construction or renovation projects, land acquisition for future projects, acquisition of facilities, purchase of equipment, refinancing of outstanding debt used for such purposes, working capital for start-up facilities, funding of debt service reserves, costs of bond issuance, etc.

AMOUNT AND TERM OF FINANCING

No upper limit on the amount of financing. Terms of up to 40 years, subject to the useful life of what is being financed.

FINANCING FEES

CEFA will charge an initial fee, starting at 0.15% of the par amount of the bond issuance, and falling to 0.05% on amounts above $10 million (capped at $75,000). Annual fee of 0.015% of the outstanding amount (annual maximum of $12,000 in total). Other financing costs include legal, financial advisor, and trustee fees. Examples of the fees for the first year of a bond issuance with a par amount of $100 million are below. Over time, the annual fee would decrease because CEFA assesses it based on the outstanding bond amount, not the original par amount.

Applicant Type	Issuance Amount	CEFA Initial Fee	CEFA Annual Fee
Private, Non-profit Higher Education Facility	$100 million	$75,000	$12,000

APPLICATION

Simple loan application.

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA) PRIVATE PLACEMENT LENDING PROGRAM

CEFA PROGRAM

CEFA offers borrowers the opportunity to issue municipal bonds either by way of a public offering/sale or through a private placement/direct purchase. In a private placement, CEFA enters into a purchase agreement with a lender to sell the bonds, and then CEFA enters into a loan agreement with the borrower to loan the proceeds from the bond sale. Among the benefits of private placements are lower costs of issuance, quicker and easier execution and fewer parties requiring disclosure and due diligence. Some banks also will lend funds without requiring cash funding of a Debt Service Reserve Fund, which can result in additional cost savings. As a result, private placements are beneficial for smaller transactions or issuers with a unique credit story and work well for bonds with a shorter term (i.e., 10 years or less).

THE OPPORTUNITY: ISSUE DEBT CHEAPER AND FASTER THROUGH PRIVATE PLACEMENTS

CEFA proposes establishing a new Private Placement Lending Program with a small group of pre-selected banks and financing professionals. Borrowers electing to participate in this program would benefit from standardized loan documents and due diligence procedures, ensuring faster, easier and less costly execution. Borrowers need not have their own financing team to participate. CEFA will seek socially-responsible investors that may be willing to lend to CEFA borrowers at below market rates.

Borrowers with established financing teams, that already have identified a lender for a particular private placement transaction, can of course continue to issue through CEFA, as they have in the past, outside of the new Private Placement Lending Program.

WHO CAN BORROW

In order to meet the requirements for the CEFA Private Placement Lending Program, a borrower must meet the following eligibility criteria:

- ☐ Be regionally accredited by the Western Association of Schools and Colleges;
- ☐ Be a private, non-profit, post-secondary degree granting educational institution located in California or that has educational facilities in California;
- ☐ Offer a broad curriculum in secular subjects;
- ☐ Have been operating for a minimum of three years and provide three years of audited financial statements; and
- ☐ Have revenue sufficient to cover debt service on the proposed financing.

WHAT CAN BE FINANCED

New construction or renovation projects, land acquisition for future projects, acquisition of facilities, purchase or lease of equipment, refinancing of outstanding debt used for such purposes, working capital for start-up facilities, funding of debt service reserves, costs of bond issuance, etc.

AMOUNT AND TERM OF FINANCING

No upper limit on the amount of refinancing. Terms of up to 40 years, subject to the useful life of what is being financed.

FINANCING FEES

CEFA will charge an initial fee, starting at 0.15% of the par amount of the bond issuance, and falling to 0.05% on amounts above $10 million (capped at $75,000). Annual fee of 0.015% of the outstanding amount (annual maximum of $12,000 in total). Other financing costs include legal, financial advisor, and trustee fees. Examples of the fees for the first year of a bond issuance with a par amount of $100 million are below. Over time, the annual fee would decrease because CEFA assesses it based on the outstanding bond amount, not the original par amount.

Applicant Type	Issuance Amount	CEFA Initial Fee	CEFA Annual Fee
Private, Non-profit Higher Education Facility	$100 million	$75,000	$12,000

APPLICATION

Simple loan application.

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA) POOLED BOND FINANCING PROGRAM

CEFA PROGRAM

CEFA is offering a pooled bond financing program to minimize costs of issuance and simplify the bond issuance process for borrowers. By pooling the needs of multiple borrowers into a single financing, a pooled financing can lower the overall cost of issuance for each borrower and potentially lower the cost of borrowing for each borrower.

In a pooled financing, CEFA issues bonds and subsequently loans the proceeds to multiple borrowers. CEFA would utilize an experienced team of financing professionals to manage the financing and seek to purchase credit enhancement to address differences in credit quality among the borrowers. Unlike for CHFFA, which has the availability of Cal-Mortgage, a state agency that provides credit enhancement for eligible healthcare facilities, there is no state agency that provides credit enhancement for private, nonprofit higher education facilities. However, private credit enhancers do exist and may be willing to enhance a CEFA pooled bond. This program could be used for tax-exempt or taxable financings and is ideal for smaller or less frequent borrowers and those looking for the ease of a “one-stop” program.

IRS code defines the term “pooled financing bond” as any bond issued as part of an issue more than $5,000,000 of the proceeds of which are reasonably expected (at the time of the issuance of the bonds) to be used (or are intentionally used) directly or indirectly to make or finance loans to two or more ultimate borrowers. To avoid the most restrictive tax requirements, bonds would be issued only once the pool of borrowers and their financing needs have been specifically identified.

THE OPPORTUNITY: REDUCE OVERALL COST OF ISSUANCE THROUGH POOLED BONDS

Generally, pooled financing bonds are issued to reduce issuance costs and lower interest rates to the conduit borrowers. In exchange, borrowers of pooled bond proceeds give up some autonomy and timing flexibility.

WHO CAN BORROW

In order to meet the requirements for the CEFA Pooled Bond Financing Program, a borrower must meet the following eligibility criteria:

- ☐ Be regionally accredited by the Western Association of Schools and Colleges;
- ☐ Be a private, non-profit, post-secondary degree granting educational institution located in California or that has educational facilities in California;
- ☐ Offer a broad curriculum in secular subjects;
- ☐ Have been operating for a minimum of three years and provide three years of audited financial statements; and
- ☐ Have revenue sufficient to cover debt service on the proposed financing.

WHAT CAN BE FINANCED

New construction or renovation projects, land acquisition for future projects, acquisition of facilities, purchase of equipment, refinancing of outstanding debt used for such purposes, working capital for start-up facilities, funding of debt service reserves, costs of bond issuance, etc.

AMOUNT AND TERM OF FINANCING

No upper limit on the amount of financing. Terms of up to 40 years, subject to the useful life of what is being financed.

FINANCING FEES

CEFA will charge an initial fee, starting at 0.15% of the par amount of the bond issuance, and falling to 0.05% on amounts above $10 million (capped at $75,000). Annual fee of 0.015% of the outstanding amount (annual maximum of $12,000 in total). Other financing costs include legal, financial advisor, and trustee fees. Examples of the fees for the first year of a bond issuance with a par amount of $100 million are below. Over time, the annual fee would decrease because CEFA assesses it based on the outstanding bond amount, not the original par amount.

Applicant Type	Issuance Amount	CEFA Initial Fee	CEFA Annual Fee
Private, Non-profit Higher Education Facility	$100 million	$75,000	$12,000

APPLICATION

Simple loan application.