CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA)
COMMERCIAL PAPER PROGRAM

THE OPPORTUNITY: ISSUE TAX-EXEMPT/TAXABLE COMMERCIAL PAPER FOR ACCESS TO SHORT-TERM LOW COST DEBT

CEFA's Commercial Paper Program provides private, non-profit higher education facilities access to interim financing through the issuance of commercial paper rather than the issuance of long-term fixed or variable rate bonds. The Commercial Paper Program is available on a tax-exempt or taxable basis. Proceeds from a borrowing under the Commercial Paper Program may be used by eligible borrowers to fund new construction or renovation projects, acquisition of real property, purchase of equipment, refinancing of outstanding notes, working capital for start-up facilities, and costs of issuance, among other purposes.

Commercial paper is the issuance of a series of short-term notes, with maturities ranging from one to 270 days. The interest rate on each note maturity is fixed at the time of issuance based on market conditions. The rate of each note changes when the issue matures or if it is rolled over (paid off with the proceeds of new notes) to a new maturity. The Commercial Paper Program usually consists of a series of issues, each at a fixed rate, which, when taken as a whole, produces a variable borrowing cost for the overall debt. Commercial paper is issued in minimum denominations of $100,000. The combination of this minimum denomination and maximum maturity of 270 days allows the security to be exempt from the continuing disclosure requirements of Securities Exchange Commission Rule 15c2-12.

The Commercial Paper Program is typically supported by a bank credit facility (Letter of Credit or Liquidity Facility) or in certain instances is supported by self-liquidity of the highest credit quality issuers. The Commercial Paper Program carries short-term ratings based on the credit quality of the bank providing credit enhancement or the issuer in the case of self-liquidity. High credit quality banks or issuers, typically with short-term ratings of A-1+ and A-1 (Standard & Poor's), P-1 (Moody's) and F-1+ and F-1 (Fitch), required to attract investor interest. Due to the unlikely, but possible, risk that market conditions would not exist at the time that the commercial paper is due to be refunded with new commercial paper on a particular maturity date, an issuer self-liquidity or the bank letter of credit or liquidity facility is required to ensure funds are available to provide payment for notes maturing.

CEFA would authorize the issuance of commercial paper up to a certain maximum amount for certain projects. The Commercial Paper Program may be a more efficient mechanism for financing numerous or extended projects. First, note issuance can be timed to coincide with the exact need for funding. Since projects typically are segregated into phases, each phase or the components within each phase can be funded only when needed. Once a project or funding need is fully funded with commercial paper, an issuer typically issues long-term bonds to "take out" the interim commercial paper notes.

Additionally, for tax-exempt commercial paper, IRS yield limitations on investment of short-term note proceeds is less restrictive than for long-term bonds, allowing at least some earnings on proceeds of tax-exempt commercial paper to be utilized for project costs. That is not because of any special law. Instead, the nature of a Commercial Paper Program is that proceeds tend to be drawn only as needed, so it takes investment of proceeds out of the rebate equation as a practical matter.

The Commercial Paper Program provides colleges/universities the opportunity to achieve the lowest possible financing costs available.

WHO CAN BORROW

In order to meet the requirements for the Commercial Paper 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 and does not restrict the admission of students based on race or ethnicity;
- ☐ Have been operating for a minimum of three years and able to provide three years of audited financial statements;
- ☐ Have revenue sufficient to cover debt service on the proposed financing; and
- ☐ Have to meet minimum credit criteria established by the liquidity bank or by the rating agencies (for self-liquidity arrangements), as applicable.

WHAT CAN BE FINANCED

New construction or renovation projects, acquisition of real property, purchase of equipment, refinancing of outstanding debt used for such purposes, working capital (likely on a taxable basis), funding of debt service reserves, costs of issuance, etc.

AMOUNT AND TERM OF FINANCING

No upper limit on the amount of authorization and issuance. Terms of up to 270 days.

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), and an annual flat fee of $1,000 will be charged.

APPLICATION

Applicable sections of the CEFA Bond Financing Application.