CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA)
TAXABLE CONDUIT BONDS

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

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.

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.