

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (CEFA) REFUNDING BONDS

THE OPPORTUNITY: CREATE SAVINGS THROUGH REFUNDING BONDS

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.

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funds held under an indenture, or to release or defease the lien of the indenture and thereby modify or eliminate outdated or burdensome bond covenants or other restrictions.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 a unique opportunity regarding the issuance of refunding bonds:

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:

\square Be regionally accredited by the Western Association of Schools and Colleges;
\square 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;
\square Have been operating for a minimum of three years and provide three years of audited financial statements; and
\square 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.