CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA)
REFUNDING BONDS

<u>THE OPPORTUNITY: CREATE SAVINGS THROUGH REFUNDING BONDS</u>

CHFFA's Bond Financing Program provides eligible non-profit healthcare 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 CHFFA 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funds held under an indenture, or to release or defease the lien of the indenture and thereby modify or eliminate outdated or burdensome covenants or other restrictions.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 **<u>tax-exempt</u>** 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 **<u>taxable</u>** basis. Changes to federal tax law in late 2017 eliminated the ability of governments to issue tax-exempt advance refunding bonds.

The CHFFA Bond Financing Program offers borrowers a unique opportunity regarding the issuance of refunding 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 eligible 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 CHFFA 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 CHFFA Bond Financing Program and the municipal taxable market versus through a stand-alone corporate issuance. SEE RELATED CHFFA BOND FINANCING PROGRAM OPPORTUNITY: TAXABLE CONDUIT BONDS.

WHO CAN BORROW

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

☐ Be a participating health institution under the CHFFA Act (which includes a public hospital, a non-profit corporation or association authorized by the laws of California to provide or operate a health facility and undertake the financing or refinancing of a project);

☐ 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

CHFFA will charge an initial fee of 0.05% of the par amount of the bond issuance ($1,000 for small private and public health facilities), and 0.0175% of the bonds outstanding annually (annual maximum of $150,000 in total for large private health facilities, and $500 in total for small private and public health facilities). 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 CHFFA assesses it based on the outstanding bond amount, not the original par amount.

Applicant Type	Issuance Amount	CHFFA Initial Fee	CHFFA Annual Fee
Large Private, Non-profit	$100 million	$50,000	$17,500
Small Private, Non-profit and Public	$100 million	$1,000	$500

APPLICATION

Simple loan application.