CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
March 28, 2002

Item #6 – Tax Exempt Commercial Paper

At the February 28, 2002 Authority meeting, staff presented an overview of a Tax-Exempt Commercial Paper (TECP) program to briefly describe what it is, how it works, the benefits to CEFA borrowers and the impact on CEFA staff. This was presented as an information only item, in anticipation of possibly receiving an application from a CEFA borrower. Since a TECP program would be somewhat different than a normal bond issue, counsel for both the State Treasurer and Attorney General have recommended that the Authority approve the concept of a TECP program by a formal resolution.

The following briefly summarizes the components of a TECP program as presented at the February 28, 2002 meeting:

<u>What is TECP?</u>

- A series of short-term notes with maturities from 1 to 270 days
- Fixed rate on each maturity; rate set at time of issuance
- Minimum denominations of $100,000
- Highest credit rating required
- Liquidity required, either issuer or bank provided
- Number of notes unlimited; maximum amount outstanding set by Authority and borrower resolutions

<u>How does it work?</u>

- Requires professionals similar to variable rate demand issues (a TECP Dealer, an Issuing and Paying Agent [IPA], who can also be the Trustee, Depository Trust Company [DTC], and investors, borrowers and the issuer [CEFA])
- Borrower determines amount to be issued within approved resolutions (and maturity restrictions, if desired)
- TECP Dealer markets new issue to tax-exempt money market funds and other institutional investors
- Securities are registered with DTC & matched with funds received by the IPA
- Maturities generally average between 30 and 60 days; numerous staggered maturities result in a blended interest rate on the total notes outstanding
- Interest is normally paid on each maturity date; principal is rolled to new maturity with new interest rate, unless redeemed in whole or in part

What are the benefits?

- Notes are issued in small denominations and for maturities that more closely relate to the immediate need for funding
- Interest costs are substantially less than a normal bond issue where interest accrues from the first day on the entire issuance; maturities can be selected to take advantage of the yield curve to obtain lowest interest rates
- Donations and other funding sources can used to retire maturing notes without prepayment penalties
- Notes can be issued for each phase of multiple projects for better management and cost control
- Notes can be marketed on short notice and without costly offering documents required on bond issues
- TECP compares favorably to variable rate bonds using daily or weekly reset modes while providing the surety of fixed interest rates

What is the impact on CEFA?

- Initial application & approval process by Authority similar to standard bond issues; document review more intense because of new program
- Maximum amount outstanding would be approved by Authority resolution
- Each initial note sale would involve CEFA and State Treasurer's Office (Public Finance Division) staff; rollovers at maturity would be handled by the TECP Dealer, similar to variable rate bonds
- Rates of each maturity would be reported electronically to CEFA following the event
- Borrowers would be required to report principal reductions coinciding with rollovers to CEFA so that total outstanding debt can be monitored; monitoring process would require additional staff time vs. a standard bond issue

Staff noted in its prior presentation that TECP is not for everyone. The market demands the highest credit ratings for short-term financing, based upon the borrower or credit provider. Liquidity, which can be a substantial cost, must be available to guarantee payment of the notes at maturity. Borrowers must commit significant staff time, working closely with the TECP Dealer and IPA, to monitor new placements, rollovers & total notes outstanding, and ensure the availability of funds for interest and principal payments when due. TECP programs are for facilities that have significant or numerous projects on a continual basis, not occasional long-term funding requirements.

Due to these constraints, CEFA anticipates an extremely limited number of colleges and universities to request approval to issue TECP. Staff therefore does not desire to develop a CEFA TECP program that may not exactly fill the needs of even a limited number of borrowers. Rather, staff wants to establish only basic parameters and respond to specific requests. Staff recommends approval of the enclosed resolution that provides authorization to consider specific requests that may be received from eligible colleges and universities for a TECP program.