



## CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY (CHFFA) COMMERCIAL PAPER PROGRAM

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

CHFFA's Commercial Paper (CP) Program provides eligible health facilities access to interim financing through the issuance of CP rather than the issuance of long-term fixed or variable rate bonds. The CP Program is available on a tax-exempt or taxable basis. Proceeds from a borrowing under the CP 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.

CP 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 CP 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. CP 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 CP Program is typically supported by a bank credit facility (Letter of Credit or Liquidity Facility) or in certain instances by self-liquidity of the highest credit quality issuers. The CP 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 CP 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.

CHFFA would authorize the issuance of CP up to a certain maximum amount for certain projects. The CP 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 CP, an issuer typically issues long-term bonds to "take out" the interim CP notes.

Additionally, for tax-exempt CP, 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 CP to be utilized for project costs. That is not because of any special law. Instead, the nature of a CP 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.

### **CP ISSUANCE MINIMUM REQUIREMENTS**

CHFFA will accept and consider applications from eligible borrowers requesting CP issuance, provided that the CP application meets the following minimum requirements:

- Any CP to be issued by the Authority must receive short-term ratings of at least A-1/P-1/F-1 (Standard & Poor's/Moody's/Fitch) by at least one nationally recognized rating agency;
- The CP to be issued must be issued in denominations of \$100,000 or integral multiples of \$1,000 in excess thereof;
- The final maturity date of the CP cannot exceed 40 years as provided under Section 15441 of the CHFFA Act;
- The CP application must include a detailed description of the capital projects anticipated to be funded by the proceeds of the CP

### **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**

CHFFA will charge an initial fee, starting at 0.05% of the par amount of the bond issuance (capped at \$100,000), and an annual flat fee of the greater of \$5,000 or 0.0175% of the maximum amount of notes outstanding during the billing year.

### **APPLICATION**

Simple loan application.