CHEFA

Connecticut Health & Educational Facilities Authority

Presentation To

Connecticut State Office of Health Strategy

Health Care Cabinet

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General Topic Outline

- Introduction to CHEFA Bond Programs
- Tax-Exempt Financing Overview
- Types of Bond Financings
- Overview of Public Offerings
- Overview of Private Placements
- How are CHEFA Bonds Priced?

Introduction to CHEFA Bond Programs

- Under federal tax law, only governmental agencies can issue tax-exempt bonds. CHEFA is known as a conduit issuer.
- Created in 1965, CHEFA has issued over $22.8 billion in bonds on behalf of Connecticut nonprofits
- Bonds issued are not guaranteed or backed by the State
- Operating costs are supported through loan fees and are not funded with tax dollars
- Tax-Exempt Equipment Loan Program has provided low-cost loans through banks for up to $20 million for equipment purchases
- Since 2003, provided over $33 million in grants to its clients and other not-for-profits.

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Tax-Exempt Financing Overview

- Tax-exempt financing typically offers a lower cost of borrowing than bank loans or other taxable instruments
- Interest received by investors on tax-exempt debt is exempt from federal income tax and income tax of the state in which issued as well
- Bond proceeds may only be used to fund capital projects or refinance qualified existing indebtedness.
- Projects include acquisition or construction of land, buildings, equipment and related infrastructure. IRS places limitations on Unrelated Business/Private Business Use.
- Certificate of Need approval, if applicable must be received prior to bond issuance

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Types of Bond Financings

PUBLIC OFFERING

- Minimum rating of "BAA3/BBB-" from any one or a combination of the three nationally rating agencies (Moody's, Standard & Poor's, and Fitch)
- Bonds are sold in $5,000 denominations

LIMITED PUBLIC OFFERING

- Minimum rating of "Ba/BB" from any one or a combination of the three nationally rating agencies (Moody's, Standard & Poor's, and Fitch)
- Sold in $100,000 denominations
- Requires Investor Letter

PRIVATE PLACEMENT/BANK DIRECT PURCHASE

- Bonds are sold to one Investor/Bank
- Sold in $100,000 denominations
- Requires Investor Letter

Overview of Public Offerings

- CHEFA loan to the borrower is funded through the issuance of publicly traded bonds sold to institutions and individuals.
- Public offerings are typically rated for creditworthiness by Moody's, Standard & Poor's, or Fitch.
- Key rating factors include: Market Profile; Operating Performance; Liquidity; and Leverage.
- The credit rating will have a direct correlation to the interest rate investors will be willing to accept for the corresponding risk.
- Public offerings often have a final maturity of 30 years, amortizing over the full term.

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Overview of Public Offerings

Credit Rating – an assessment of an Institution's ability to meet its debt service payments over the life of an issue.

Standard & Poor's/Moody's Investor Service

AAA/Aaa
- Capacity to meet financial commitment is exceptionally strong
- Lowest level of Investment Risk

AA/Aa
- Differs from AAA only by a small degree
- Capacity to meet financial commitment is very strong

A/A
- Capacity to meet financial commitment is strong
- Somewhat susceptible to changes in circumstances and economic conditions

BBB/Baa
- Capacity to meet financial commitment is adequate
- Somewhat susceptible to changes in circumstances and economic conditions

BB/Ba
- Faces ongoing uncertainties – elevated vulnerability to default risk
- Exposure to adverse business, financial and economic conditions

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High Grade Investments **Medium Grade Investments** **Below Investment Grade**

Overview of Private Placements

- An arrangement with one investor, typically a commercial bank, to buy all the bonds in a simplified process
- Terms of the bonds can be negotiated directly with the investor
- Compared to public offerings, issuance costs are greatly reduced
- No need for an investment banking firm to market the bonds to investors
- Bonds may be structured as variable rate or fixed rate
- Term – usually 10 years or shorter, but may be amortized over 25 -30 years (resulting in a balloon payment)

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Reflection of Credit Rating

Market Acceptance –
Track Record of Previous Offerings

Industry Related Impacts –
Sector Risks

Current Market Factors

How are CHEFA Bonds Priced?

Questions?

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