Oregon Facilities Authority (“OFA”)

Frequently Asked Questions

What is OFA?

OFA is the state agency that helps nonprofits access low-cost financing for Capital projects through the issuance of tax exempt conduit revenue bonds.

What are tax-exempt conduit revenue bonds?

Most people know that municipalities can issue tax-exempt bonds in order to borrow money at low interest rates for public projects. What most people don’t realize is that nonprofits can also access the tax-exempt bond market and enjoy these low rates of interest. But nonprofits can’t issue bonds directly. Instead, they must be issued through a governmental entity, like OFA. The government agency issues the tax-exempt bonds and the proceeds are then loaned to the borrowing nonprofit. The bonds are called “conduit” bonds because OFA acts as a conduit between the borrower (the nonprofit) and the people or institutions that buy the bond. The interest paid to the purchasers of these bonds is tax-exempt, so the interest rate paid by the borrowing nonprofit is lower than for taxable borrowing.

How does OFA add value?

OFA provides a sound process for bond issuance oversight and a reliable, cost-effective process for issuance. OFA and its team of professionals have experience in a wide range of nonprofit financings (taxable and tax-exempt). The Office of the State Treasurer is also involved in the process.

A nonprofit that issues through OFA can benefit in the following ways:

- Because all OFA does is bond financing, it has developed expertise in the world of tax exempt financing, as well as an effective and efficient issuance process.

- OFA has negotiated attractive fees with bond counsel and trustees. These fees can lower the overall cost of issuance to a borrower and provide certainty in this portion of the issuance costs.

- OFA's Financial Adviser reviews all bond transactions, and offers insight and advice about the transaction to OFA, which is also available to borrowing nonprofits. This helps a nonprofit know how its transaction compares with other transactions in the wider world of tax exempt financing, an important aspect of oversight.

- OFA can assist any §501(c)(3) borrower with a project in the state of Oregon and is the only conduit issuer that can provide these services state-wide.

The OFA Executive Director can help a borrower "get started" in exploring tax exempt bond financing options. OFA's experienced team of professionals can assist a nonprofit in choosing the best offering method and structure and creating a successful bond offering.

Does the State guarantee repayment of an OFA Bond?

No. Oregon does not guarantee repayment. The bonds must be repaid by the loan payments made by the nonprofit.

May all nonprofits use OFA's services?

Only organizations that qualify under Internal Revenue Code §501(c)(3) can borrow through OFA. The financed facilities must be located within Oregon and must serve a public purpose. The facilities must not be used for sectarian purposes. The OFA Board may impose additional requirements for borrowers and projects.

A nonprofit borrower must be creditworthy in order to qualify for a bond, so the nonprofit should talk to its financial advisors about this issue prior to considering a bond transaction.

May bonds be issued for any purpose?

No. Bonds can only be issued for the purchase, construction, renovation, improvement or remodeling of facilities of a nonprofit, or for equipment purchases. These facilities must be used in the nonprofit's mission (not rented out to for-profit entities, for example). Bonds can also be used to refinance existing loans that were taken on for these purposes.

How are bonds sold?

Bonds are sold in one of two ways: a "public offering" or a "private placement." It is up to the borrowing nonprofit to decide which method of sale to use, and the nonprofit's financial advisor plays a big role in this decision.

In a public offering, members of the public or institutions may purchase the bonds. The nonprofit receives assistance from an underwriter and others to help structure the transaction. A public offering usually results in the lowest interest rate, but typically has higher up-front costs. Bonds must be "investment grade" in order to be issued in OFA transactions.

In a private placement, an institution (such as a bank or insurance company) purchases the bond and holds it as an investment. These bonds are not rated. This is usually a less complicated transaction than a public offering, and has lower up-front costs – but not always.

What is the interest rate on these bonds?

The interest rate varies according to market conditions, the creditworthiness of the borrowing nonprofit, and other factors. In a public offering, the underwriter and others assist the nonprofit in structuring the transaction, which includes setting the interest rate on the bonds. In a private placement, the institutional lender and the borrower negotiate the appropriate interest rate.

Nonprofits will want to visit with various banks or underwriters to discuss the interest rate that applies to a particular loan because different institutions will offer different rates.

What are the costs to the borrowing nonprofit?

There are a number of fees involved in any kind of conduit bond transaction. In order for bond financing to make sense, it is critical that the savings in interest costs be greater than the costs of issuing the bonds, when calculated over the expected life of the bonds. The financial advisor to the nonprofit can assist in this calculation. The costs incurred in issuing bonds can usually be financed as part of the bond amount, within limits.

Public offerings usually involve more up-front costs than private placements, because there is a lot more to be done by lawyers and others to ensure that the bonds are suitable for public purchase. OFA publishes a fee schedule for its traditional and SNAP bonds.

There is also the time involved for the nonprofit in putting together the application and seeing the transaction through to the issuance of the bond and for the nonprofit's attorney fees, underwriter fees, and other costs of a traditional bond offering.

What are OFA's Two Private Placement programs?

OFA offers two different private placement programs.

For simple real estate commercial loan with a bank, OFA offers the "SNAP" program, which is discussed below.

For transactions that are more complicated – that involve underwriters or placement agents, tax credits, etc. or for which a traditional real estate loan is not appropriate, OFA offers a traditional private placement program.

What is a "SNAP Bond"?

For relatively straightforward real estate loans, a nonprofit might use a "SNAP" (small nonprofit accelerated program) Bond*,* in which a bank purchases the bond.

A SNAP Bond transaction uses standardized bond documents and a streamlined approach, which significantly reduces costs. From the nonprofit's point of view, the transaction looks and feels like a standard commercial real estate loan, except that the interest rate is lower and the process of approval is different.

SNAP Bond fees are based on the amount of bond for which the nonprofit applies. Bond Counsel fees are a fixed amount based on a sliding scale, with some exceptions. OFA's fees and other expected fees can be found on the OFA website.

SNAP Bonds are not suitable for complicated transactions, such as those involving placement agents, underwriters, tax credits or the need for specialized bond documents.

OFA publishes a list of banks that participate in the SNAP Bond program on its website.

The OFA Executive Director can help a nonprofit sort out which transactions qualify for the SNAP Bond program.

What is the process for getting OFA bond financing?

A nonprofit borrower will normally work with an underwriter and others (for public offerings and traditional private placements) or its bank or other financial institution (for private placements) to weigh the pros and cons of financing through an OFA bond sale. If this approach seems viable, the nonprofit should call the OFA Executive Director to discuss the transaction.

The nonprofit borrower then applies to OFA using the process described on the OFA website. The OFA Board considers the application at one of its monthly meetings. At that meeting the nonprofit and its advisors (including the Bank that will be purchasing the bonds, if applicable) will make a presentation to the Board. The Board will have questions for the nonprofit and its advisors because it has the responsibility of recommending to the Treasurer that the bond be issued. If the Board approves the application, this is the go-ahead for OFA's Bond Counsel to work with the nonprofit and others to prepare the transaction. During this phase, the nonprofit's status as a §501(c)(3) organization and its intended use of the proceeds for its mission will be evaluated by Bond Counsel. The nonprofit has to provide a legal opinion about its §501(c)(3) status. When the documents are in substantially complete form, the applicant returns to the OFA Board for final approval.

Along the way, OFA's advisors can help in resolving concerns that arise and making sure the transaction complies with Internal Revenue Code and applicable rules. These advisors represent OFA, however, so the nonprofit will also want to have its own lawyer and advisors look over the transaction.

The process can take as little as two months, or longer – depending on the complexity of the transaction and other factors.

How can I find out more?

Check out OFA's website (http://www.ost.state.or.us/About/OFA/) or contact the Executive Director, Gwendolyn Griffith, at 503-802-5710 or email: OFA@tonkon.com.

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