MINUTES

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
MINUTES JANUARY 25, 2007 – 1:30 P.M.
915 CAPITOL MALL, ROOM 587
SACRAMENTO, CA 95814

Alternate Location for Teleconference Participation

University of Southern California
3601 Trousdale Parkway
Office of Vice President for Student Affairs
Student Union 201
Los Angeles, CA 90089-4891

Chairperson Bill Lockyer called the meeting to order at 1:35 p.m.

Present: Bill Lockyer, State Treasurer, Chairperson
Michael Carter for John Chiang, State Controller, Vice Chairperson
Anne Sheehan for Michael C. Genest, Director, Department of Finance
Sylvia Scott-Hayes
Michael L. Jackson via teleconference

Staff: Jose Gomez, Executive Director
Frank Vega, Former Executive Director
Ronald Washington, Deputy Executive Director

The Chairperson declared a quorum present.

The minutes from the California Educational Facilities Authority's (CEFA) September 28, 2006 meeting were approved as submitted. Anne Sheehan moved for approval of the minutes it was seconded by Sylvia Scott-Hayes, 4 yes, 1 abstain (Michael Carter).

The Executive Director's Report for CEFA/SLAF was presented for the months of September, October, November and December 2006. Frank Vega reported the September 30, 2006 CEFA fund balance of approximately $5.79 million, and as of December 31, 2006, the fund balance of approximately $5.6 million. He stated that the student loan account remains inactive, except for interest earnings, and as of December 31, 2006, had a balance of approximately $6.9 million. Mr. Vega reported the Authority's Quarterly Comprehensive Debt List Summary for Borrowers with $50,000,000 or More Outstanding CEFA Debt as of December 31, 2006 totaled $2,803,917,745.

Mr. Vega thanked the Authority for allowing him to serve as Executive Director. He stated that the Authority does and will continue to do great work, and that it was a great pleasure to serve.

Bill Lockyer stated that Mr. Vega was leaving to go to the private sector after eight years of State service and expressed appreciation for his very fine and conscientious service.

Item #4 **Resolution Approving the Appointment of the Executive Director**
Resolution No. 2007-01

Bill Lockyer introduced Jose Gomez and stated that during his term as President of the State Senate, Mr. Gomez was recruited to manage his Los Angeles office and since then has held a range of responsibilities and holds an extensive educational background.

Jose Gomez thanked the Board for the opportunity and stated that he was looking forward to working with the Authority.

Ronald Washington stated that this Resolution would approve Jose Gomez to serve as Executive Director of the Authority and designate him with the appropriate powers and authority necessary to conduct the business of the Authority, including, but not limited to, the power to enter into contracts on behalf of the Authority.

Bill Lockyer moved for adoption of the Resolution and seconded by Anne Sheehan/Sylvia Scott-Hayes. Motion adopted with a 5-0 vote.

Bill Lockyer requested Item #9, Resolution 244 be moved next on the Agenda.

Item #9 **University of Southern California**
Resolution No. 244

Summer Nishio stated that the University of Southern California was requesting $470,000,000 in bond proceeds to fund various capital projects as well as to refund the CEFA series 1997A, 1999, 2003A and 2003C CEFA bonds. Representing the University: Mr. Glenn Cavagnaro, Director of Liability Management, University of Southern California; and, Mr. Russell Miller, Esq., Hawkins, Delafield & Wood, LLP, Bond Counsel.

Staff recommended the Authority approve Resolution No. 244 in an amount not to exceed $470,000,000 for the University of Southern California, subject to the bonds having at least an "A" category rating by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance guidelines.

Silvia Scott-Hayes asked if the Authority was going to provide the Board with information on the applicant's implementation of green building standards.

Bill Lockyer asked the applicant to comment on green standards relating to this financing.

Glenn Cavagnaro stated that the application required the University to comply with the CEQA requirements and that he worked closely with CEFA staff to ensure that the necessary documentation had been provided. He was unaware at this time whether any green building standards had been incorporated.

Bill Lockyer stated that the staff would try to provide green standard information to the Board in the future.

Anne Sheehan moved for adoption of the Resolution and Sylvia Scott-Hayes Scott seconded it. Motion adopted, 4 ayes, 1 abstain (Michael Jackson).

Item #5 **California College of the Arts**
Resolution No. 240

Kristine Scully stated that the California College of the Arts was requesting $12,500,000 in bond proceeds to refund their portion of the CEFA Series 1998A bonds. Representing the College: Mr. David Kirshman, Vice President for Finance & Administration, California College of the Arts; Mr. Richard DeProspo, Principal, De La Rosa, Underwriter; and, Ms. Harriett Welch Esq., Squire, Sanders & Dempsey, LLP, Bond Counsel.

Staff recommended the Authority approve Resolution No. 240 in an amount not to exceed $12,500,000 for the California College of the Arts, subject to a bond rating of at least a "Baa3" or "BBB-" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance guidelines

David Kirshman stated that the original bonds were used to fund construction of the main campus in San Francisco that included solar installation and that the college continues to use solar energy to heat the building.

Michael Carter asked if there was a threshold amount that made refunding viable.

Kristine Scully stated that Authority policy requires a financing to have a minimum 3% net present value savings.

Anne Sheehan moved for adoption of the Resolution and Michael Jackson seconded it. Motion adopted with a 5-0 vote.

Item #6 **Dominican University of California**
Resolution No. 241

Kristine Scully stated that Dominican University of California was requesting $12,500,000 in bond proceeds to current refund their portion of the CEFA Series 1997C Bonds and advance refund the 1999B and 2001 bonds. Ms. Scully stated that the Authority received and reviewed the University's 2006 audited financial statements and there were no material differences in the ratios that were provided to the Board. Representing the University: Mr. John Engstrom, Manager of Budgets & Financing Planning, Dominican University of California; Mr. Richard DeProspo, Principal, De La Rosa, Underwriter; and, Ms. Harriett Welch Esq., Squire, Sanders & Dempsey, LLP, Bond Counsel.

Staff recommended the Authority approve Resolution No. 241 in an amount not to exceed $12,500,000 for Dominican University of California, subject to a bond rating of at least a "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance guidelines.

Anne Sheehan moved for adoption of the Resolution and Sylvia Scott-Hayes seconded it. Motion adopted with a 5-0 vote.

Item #7 **Keck Graduate Institute of Applied Life Science**
Resolution No. 242

Summer Nishio stated that Keck Graduate Institute of Applied Life Science was requesting $9,500,000 in bond proceeds to advance refund the CEFA Series 2000 bonds, providing a net present value savings of 11.53%. Representing the Institute: Mr. Robert Caragher, Vice President for Finance & Operations, Keck Graduate Institute; Mr. Richard DeProspo, Principal, De La Rosa, Underwriter; and, Ms. Harriett Welch Esq., Squire, Sanders & Dempsey, LLP, Bond Counsel.

Staff recommended the Authority approve Resolution No. 242 in an amount not to exceed $9,500,000 for Keck Graduate Institute of Applied Life Sciences, subject to a bond rating of at least a "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance guidelines.

Michael Carter asked for clarification of the Institute's losses over the last several years and what impact it might have on the bond issuances.

Robert Caragher stated that the Institute was relatively new, founded 10 years ago and that original enrollment projections were tougher to meet. He stated that the institute was still in the process of filling enrollment to full size and continues to rely heavily on expendable giving. Mr. Caragher stated that the Institute anticipates a more steady and reliable revenue model by 2011.

Michael Carter asked if there was continued due diligence

Summer Nishio stated that applicants are required to submit audited financials statements yearly and that staff would be looking closely at those numbers.

Anne Sheehan asked for clarification of the relationship between the Claremont Colleges.

Robert Caragher stated that Keck Graduate Institution is an independent member of the Claremont Colleges, which consists of five undergraduate colleges; Pomona, Harvey Mudd, Claremont McKenna, Scripps and Pitzer, and two graduate institutions; the Claremont Graduate University and Keck Graduate Institute. The seven facilities jointly finance an essential services organization called the Claremont University Consortium. He stated that when a new institution is founded, the new institution traditionally receives land from the Consortium, but financially are independent.

Anne Sheehan moved for adoption of the Resolution and Sylvia Scott-Hayes seconded it. Motion adopted with a 5-0 vote.

Item #8 **Woodbury University**
Resolution No. 243

Summer Nishio stated that Woodbury University was requesting $7,000,000 in bond proceeds to fund various capital projects. Representing the University: Mr. Ken Jones, Vice President of Finance & Administration, Woodbury University; Mr. Richard DeProspo, Principal, De La Rosa, Underwriter; and, Ms. Harriett Welch Esq., Squire, Sanders & Dempsey, LLP, Bond Counsel.

Staff recommended the Authority approve Resolution No. 243 in an amount not to exceed $7,000,000 for Woodbury University, subject to a bond rating of at least a "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance guidelines.

Anne Sheehan asked if any green building standards were being implemented.

Ken Jones stated that there is a project manager on the job and that the University is looking at all the options and trying to implement green standards if possible. He stated that the cost to get LEED certified ranges ten to fifteen percent and the University may not be able to afford it.

Sylvia Scott-Hayes moved for adoption of the Resolution and Anne Sheehan seconded it. Motion adopted with a 5-0 vote.

Item #10

California College of the Arts
Resolution Authorizing an Amendment
to the 2001 and 2005 Loan Agreements
Resolution No. 2007-02

Kristine Scully stated that the California College of the Arts was requesting an amendment to its 2001 and 2005 Loan Agreements to modify certain covenants in order to exclude gains or losses on the extinguishment of debt from the calculation of such covenants. Representing the College: Mr. David Kirshman, Vice President for Finance & Administration, California College of the Arts; Mr. Richard DeProspo, Principal, De La Rosa, Underwriter; and, Ms. Harriett Welch Esq., Squire, Sanders & Dempsey, LLP, Bond Counsel.

Bill Lockyer asked for further clarification of the amendment.

Richard DeProspo stated that the Financial Accounting Standards Board (FASB) issued a new regulation and guideline in 2001, which created a loss that had previously been regarded as an extraordinary loss and was not factored in the analysis of the operations of the institution as now an operating loss. For colleges and universities that are not tax paying entities, there is no cash charges associated with it, it is sort of a phantom item that is used in the corporate world to reduce taxable income. FASB is trying to make this guideline as strict as possible to increase the intangibility of the statement initiated by the guidelines. This caused certain financial ratios in covenants of the university to be impacted by what is otherwise a beneficial event for the college and for the holders of the debt that is refinancing debt at lower interest rates for interest rate savings. The nature of the amendment will exclude from the covenant language, any phantom losses or gains associated with the refinancing of debt from those calculations. It gives investors the economic deal that they had before the FASB change.

Anne Sheehan asked if the Authority would see more refinancing because of this FASB regulation.

Richard DeProspo stated that it is possible that the Authority would see similar refinancing because of this regulation, but it would depend on how the covenants are impacted.

Harriet Welch stated that the Authority does not need to take a position on the Amendment because the previous documents are written requiring the Trustee to rely on the opinion of Bond Counsel. This opinion advises the Trustee that the amendment is not materially adverse to bond holders. The Authority is required to sign the Loan Agreement, but is allowed to rely on the certificate that is delivered by the school and the legal opinion of Bond Counsel. In one sense, the Authority needs to take action; but does not have to reach a conclusion on this particular point. Harriet Welch stated that Bond Counsel would render that opinion.

Staff recommended the Authority approve the proposed amendment to the Loan Agreements to modify certain covenants in regards to gains or losses on the extinguishment of debt from the calculations of such covenants.

There being no public comment, the meeting was adjourned at 2:05 p.m.

Respectfully submitted by,

Jose A. Gomez

Jose Gomez
Executive Director