CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
Authority's Fees for Refunding Bond Issues
August 26, 2004

Background: In May 2004, staff presented a proposal to reduce the Authority's Fee Schedule as a result of a sizeable transaction that was presented in March 2004. The proposal included the following two components:

- Cap the initial fee, up to a maximum of $300,000
- Impose a fee only on the new money portion of transactions involving refinancing existing Authority debt.

While the Authority approved the initial fee cap of $300,000, staff was directed to research competitors' fees for transactions involving refinancing existing debt. In addition, staff was instructed to determine a fee for these types of transactions rather than charging no fee, and report back to the Board at a future date.

A copy of the complete staff report from the May 2004 Authority meeting follows this page as a reference.

Other Health Care Issuers: CHFFA's two main competitors are the California Statewide Community Development Authority (CSCDA) and the Association of Bay Area Governments (ABAG). Both of these organizations reduce their fees for very large transactions (no set dollar amount), but do not differentiate between a new money issue versus refinancing existing debt.

Attached is a chart reflecting a comparison of fees between CHFFA and both of its competitors (see last page).

Analysis: The amount of time necessary to analyze a financing application, prepare a staff report, review legal documents, participate in the sale of the bonds, and finally close the issue, requires up to 100 hours of staff time, including the Financial Advisors' and the Attorney General's review. Historically, transactions involving refinancing existing Authority debt have always included a new money component. Therefore, staff considered charging a flat fee among other means of determining an adequate amount to sufficiently cover expenses for a refinancing, but no consistent measure to accurately capture the amount of time involved or a way to isolate only the refinancing component, could be determined.

Conclusion: As the initial May 2004 staff report indicates (refer to page 3, paragraph 2), only 5 out of 31 bond issues over the last five years involved refinancing existing CHFFA debt. With the low rates that Borrowers have recently obtained and the anticipated rate increases in the future, the potential universe of Borrowers that could benefit from a reduced refinancing fee is very small and not enough of an incentive to attract business.

Because there is a minimal impact to both a potential Borrower as well as the Authority, Staff intends to leave the current fee structure in place for refinancing existing Authority debt. Continuing with current practice, Staff will consider Policy Exceptions as necessary, for financings with unusual circumstances, such as a higher than normal dollar amount.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Proposal to Reduce the Authority's Fee Schedule

May 27, 2004

Background: The California Health Facilities Financing Authority (CHFFA) Act (Section 15438 (m)) authorizes the Authority to charge and equitably apportion among participating health institutions, the administrative costs and expenses incurred by the Authority to exercise its powers and duties. This self-funding structure allows the Authority to provide assistance in obtaining tax-exempt financing for eligible public health facilities and public benefit non-profit corporations without cost to the taxpayer through the State's General Fund.

Current fees, which primarily encompass staff time reviewing applications, preparing staff summaries for submission to scheduled Authority meetings, annual review of borrowers' financial and other information, business expenses for the operation of the Authority, and required contracts for outside consulting and reporting, are as follows:

Application Fee	$500
Initial Fee for new and refunded bond issuance	.075%
Annual Administration Fee (based on outstanding principal)	.02%

All fees are deposited into the CHFFA Fund ("the Fund") and all expenses are paid from the Fund. No State General Fund moneys are required for the operation of the Authority. In addition, interest earnings from the investment of the Fund in the State's Surplus Money Investment Fund (SMIF) are deposited directly to the Fund. The Fund balances as of June 30th, for the last four fiscal years are as follows:

Year	Fund Balance
2000	$ 7,368,068
2001	$ 7,967,420
2002	$ 7,648,122
2003	$ 7,801,848

The Authority's fund balance increased 5.9% from December 31st 2000 through December 31st, 2003. The average income for this same period was $1,790,598 while the average expenses were $1,490,131.

Fee Structure Proposal: Authority staff recently reviewed the current fee structure for bond financing because of a sizeable transaction that was presented at the March 2004 Authority meeting. At that time, a policy exception was approved to waive the initial bond issuance fee and only charge a fee on the new money portion of the bonds because the issue amount was unusually large, @ $1.35 billion. Prior to this issue, the largest transaction completed by CHFFA was $430 million. Based on the current fee structure, the March 2004 financing would have generated an exorbitant fee of over $1 million for the Fund. The estimated new money portion is $350 million resulting in $262,500 in initial fees.

Although a larger financing does increase the workload somewhat, it is due to the complexity of the transaction and the structure of the deal rather than based on the dollar amount of the issue. For example, there may be several different series with fixed and variable rate portions involving more bond documents to review, multiple pricings, etc. However, it is unreasonable for CHFFA to collect $1 million for its efforts on one financing. In addition, in this example, the purpose of the financing was primarily to refund existing Authority debt of nearly $1 billion and the new money bonds totaled approximately $350 million. Since the organization had already paid fees for the initial bonds at the time they were first issued, it would be inequitable to charge these fees again.

In order to avoid potential imbalances in the future, Authority staff proposes two revisions to the existing fee schedule as follows:

- ***Cap initial fee, up to a maximum of $300,000***

For bond issues of $400 million and higher, impose an amount not to exceed $300,000, which is calculated using the standard bond issuance fee of .075% of the issue amount. The California Statewide Community Development Authority (CSCDA) and the Association of Bay Area Governments (ABAG), CHFFA's two main competitors, both reduce their fees for very large transactions. For example, using an issue amount of $400 million on a BBB transaction with no credit enhancement, generates $400,000 in fees to ABAG (issue amount x .10%) and $230,000 in fees to CSCDA ($40,000 + .05% over $20 million).

Further, the California Educational Facilities Authority (CEFA), CHFFA's sister Authority, has had a cap in place since early 1997. CEFA charges up to a maximum of $75,000 on its bond issues. Since it is standard practice in the industry to adjust fees for very large transactions, it is reasonable for the Authority to adjust its fee schedule accordingly.

The following information represents the largest CHFFA bond issues in each of the past 5 years:

Year	Organization	Amount (000)
1999	Cedars Sinai Medical Center	$430,000
2000	Sutter Health	$ 52,000
2001	Providence Health System (Series A, B, & C combined)	$157,400
2002	The Episcopal Home (Series A and B combined)	$ 90,000
2003	Stanford Hospital (Series A, B, C combined)	$250,000

As illustrated above, imposing a cap on the initial fees would not have a material impact on the Fund since only one of the issues listed would have been affected resulting in $22,500 less charged for initial fees.

➢ ***Impose a fee only on the new money portion of transactions involving refinancing existing Authority debt.***

The financing approved at the March 2004 Authority meeting was atypical, not only due to its size, but the majority of the issue was to refinance existing Authority debt. In general, most issues that involve a refinancing component include a new money portion, which typically represents the majority amount of the issue.

For example, over the last five years, 5 out of 31 bond issues (excludes Equipment financings) involved refinancing existing CHFFA debt. The total bonds issued were $339,140,000. If the proposed fee change had already been in place, the Authority would have collected $216,399 (based on the total new money bonds of $288,531,507) instead of $254,355 (actually collected), a difference of only $37,956.

Projected Revenues: It is difficult to project future CHFFA bond transactions since there is not a definitive trend in the financings each year. This fact is illustrated by the following information that represents the total CHFFA financings, including Equipment transactions, issued in 1999 through 2003:

Year	# of Issues	Total Issue Size (000)
1999	7	$ 592,225
2000	9	$ 174,605
2001	8	$ 269,985
2002	8	$ 241,892
2003	7	$ 718,203

The average amount of bonds issued during the last 5 years totals $399.4 million.

Impact of Proposed Revisions to Fee Structure: Implementing the revised fee schedule to place a cap on the initial fee of up to a maximum of $300,000 per bond issue, and imposing a fee only on the new money portion of transactions that involve refinancing existing Authority debt, will not jeopardize the Fund's ability to generate a positive net income and maintain its viability. Since the annual fees sustain Authority operations, staff recommends retaining these fees at the current level (.02% of the outstanding balance each year). .

The proposed fee changes are expected to aid in preventing excessive reserves in the Fund as well as allowing borrowers that utilize the State's tax-exempt bond financing program, the ability to pass on savings to the community through enhanced services and quality care.

Staff Recommendation: Staff recommends the Authority approve revisions to the fee schedule to cap the initial fee of up to a maximum of $300,000 per bond issue, and impose a fee only on the new money portion of transactions that involve refinancing existing Authority debt.

HEALTHCARE BOND FINANCING AUTHORITIES

Comparison of Fees
(2004 Calendar Year)

	California Health Facilities Financing Authority (CHFFA)	California Statewide Community Development Authority (CSCDA)	Association of Bay Area Governments (ABAG) [4]
Application Fee	$500 [1]	$5,000 [3]	$1,000 [1]
Bond Issuance Fee	.075%	<u>up to $20 M</u> .20% (minimum $15,000) <u>over $20 M</u> $40,000 + .05% over $20 M	Credit Enhanced .05% Investment Grade-Rated but not Credit Enhanced .10% Non-rated .15% (minimum $5,000 fee for applicable category)
Annual Fee [2]	.02%	Rated = .03% Non-rated = .06%	Credit Enhanced and Investment Grade-Rated: .02% Not Credit Enhanced: Non-rated: .05%

1. Non-refundable, but deducted from total issue costs in successful closing.
2. On outstanding principal.
3. Non-refundable if financing not approved. Otherwise, the fee will be credited to issuance costs at closing.
4. Closing fees are generally reduced for very large transactions.