

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
February 28, 2002

Item #10 – Tax-Exempt Equipment Loan Program  
(Informational Item)

This is to notify the Authority that staff is preparing to implement an equipment financing program for eligible CEFA borrowers. The program will utilize tax-exempt leases, privately placed with sophisticated investors through negotiated or competitively bid issues. Terms will be based on life expectancy of the equipment and rates will be market driven. The program provides for leases ranging from as low as \$250,000 to \$5,000,000 or more, depending on equipment and credit analysis. Security may be provided by the equipment being purchased, a pledge by the college or a combination thereof. This enables CEFA to offer the program to all non-profit colleges regardless of their size.

Background: Staff discussed the development of an equipment only financing mechanism with the Authority as far back as the Board Off-Site held in Sacramento on October 20, 1999. The need was supported by a survey conducted jointly by CEFA and the Association of Independent California Colleges and Universities (AICCU) in March, 2000. The purpose of the survey, done at the direction of the Authority, was to determine what other types of services or products CEFA might provide that would be beneficial to our clients. A separate financing program for various types of equipment, which could be completed in a timely manner with low issuance costs, was a key outcome from responses.

Staff developed a Request for Proposal (RFP) during 2001 that was sent out to all investment banking firms from the State Treasurer's Office Underwriter Pool interested in CEFA financing, with the intent to obtain a broad variety of structures and formats that would meet the requirements necessary to make a new program feasible. Staff received responses from eight firms that included many types of programs, from straight bank leases to commercial paper issues. Following an analysis of each proposal, staff met with three of the firms whose proposals met the criteria and appeared to have the most potential for success.

Selection of a proposal from Prager, McCarthy & Sealy, which included a team of the AICCU and Municipal Finance Corporation, was made in December, 2001. The program, based on an existing program for the California Special Districts Association, will utilize a streamlined, standardized process throughout. AICCU will develop an on-line brochure and lead the marketing effort; Prager, McCarthy & Sealy will provide initial screening, financial review and discussions with interested colleges; Municipal Finance Corporation will develop term sheets based on individual equipment requests and credit determinations and CEFA will develop our application, coordinate TEFRA documents and hearings and present requests and our analysis to the Authority for approval. In addition, standardized documents will minimize review time by legal

counsel and overall issuance costs. Staff will come back to the Authority with a proposal for reduced CEFA application and initial fees for participants under this program and request approval of the application and other documentation.

Staff anticipates an initial kick-off marketing blitz for the program at our planned CEFA conference for California colleges and universities to be held May 16, 2002.