CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

April 25, 2002

Item #6 – CEFA Fee for Equipment Financing Program

At the February 28, 2002 meeting of the Authority, staff presented an overview of the CEFA Equipment Financing Program scheduled for implementation this year. Staff had selected the proposal submitted by Prager, McCarthy & Sealy from responses to an RFP released in 2001.

Since one of the benefits to the program is the low cost proposed by the team members for participation by colleges and universities, staff notified the Authority that we would like to propose a reduction in the normal fees charged by CEFA for use in this equipment program.

The attached spreadsheet provides a comparison of the fee revenue that CEFA would receive for an estimated 28 loans (leases) over the next three years with the current fee structure and five proposed amendments to the current structure. The scenarios range from a slight reduction in the Initial Fee only, from .15% to .10%, to a two-thirds reduction in Initial Fee and elimination of application and annual fees.

It should be noted that fee revenue was not a factor in the Authority's direction to staff to develop this equipment financing program. Rather, the purpose was to make available to colleges and universities of all sizes an efficient, cost-effective mechanism to finance various types of equipment without having to incorporate these projects into a major bond issue. As a matter of reference, average annual revenue of the Authority from fees and interest earnings over the past four years amounts to approximately $870,000, while expenses have averaged less than $700,000. The fund balance for CEFA currently stands at $7.1 million.

Regarding the workload of Authority staff for this program, we anticipate a slight reduction in the analysis and evaluation of each applicant, since the other members of the team will each perform some of those functions. Further, we anticipate the majority of the borrowers will be existing clients of CEFA and will have current information already on file. Standard documents will minimize the review efforts of all parties in preparing for completion of the financing.

<u>Recommendation:</u> Staff recommends the Authority adopt the reduced fee structure detailed as Scenario 3, which waives the Application Fee of $1,000 and the Annual Fee of $500 (for existing borrowers) and reduces the Initial Fee by one-half to .075%. As shown on the Fee Analysis spreadsheet, this would still provide some revenue to the Authority to cover administrative expenses but would continue the intent to have all program fees at minimum levels.

CEFA
EQUIPMENT FINANCING PROGRAM
FEE ANALYSIS

PROJECTED REVENUE, CURRENT FEES

Year	Number of Loans	Annual Amount	<-----FEES-----> Application	Initial	Annual	Total
1	6	4,500,000	6,000	6,750	3,000	15,750
2	10	7,500,000	10,000	11,250	5,000	26,250
3	12	9,000,000	12,000	13,500	6,000	31,500
	28	21,000,000	28,000	31,500	14,000	73,500

PROJECTED REVENUE, PROPOSED FEES

Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
13,500	5,250	4,125	3,000	6,000
22,500	8,750	6,875	5,000	10,000
27,000	10,500	8,250	6,000	12,000
63,000	24,500	19,250	14,000	28,000

CURRENT CEFA FEES

Application = $1,000
Initial = .15% maximum $75,000
Annual = $500 ($250 after 5 years)

ASSUMPTIONS:

1. Average loan size = $750,000
2. Existing borrowers will be 75% of equipment borrowers.

SCENARIO:

1. Lower Initial fee to .10%.
2. Waive Application fee, lower Initial fee to .10%, waive Annual fee for existing borrowers.
3. Waive Application fee, lower Initial fee to .075%, waive Annual fee for existing borrowers.
4. Waive Application fee, lower Initial fee to .05%, waive Annual fee for existing borrowers.
5. Flat fee of $1,000 per loan.