**MINUTES**

**CALIFORNIA EDUCATIONAL
FACILITIES AUTHORITY (CEFA)**
5th Floor Conference Room
915 Capitol Mall, Room 587
Sacramento, California 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
(213) 740-5240

Thursday, October 30, 2008

**1:35 PM**

Deputy State Treasurer Patricia Wynne, serving as chair, called the meeting to order at 1:35 p.m.

**Roll Call**

Members Present: Patricia Wynne for Bill Lockyer, State Treasurer, Chair
Cindy Aronberg for John Chiang, State Controller, Vice Chair via teleconference
Tom Sheehy for Michael C. Genest, Director, Department of Finance
Michael Jackson via teleconference

Absent: Sylvia Scott-Hayes

Staff Present: Jose A. Gomez, Executive Director
Ronald Washington, Deputy Executive Director

The Chair declared a quorum present.

**Approval of Minutes**
The minutes from the California Educational Facilities Authority's (CEFA) September 25, 2008 meeting were approved. Michael Jackson moved for approval of the minutes, Tom Sheehy seconded the motion. The motion was adopted with a 4-0 vote.

**Executive Director's Report**
Jose Gomez reported that as of September 1, 2008, CEFA had issued bonds totaling $8,468,188,538 and currently has $3,891,154,444 in bonds outstanding. The CEFA fund balance as of September 30, 2008 was $4,741,005.58, reflecting expenditures of $40,379.66 and income of $1,000. Mr. Gomez presented the Authority's Quarterly Comprehensive Debt List Summary as of September 30, 2008 and stated that there were ten borrowers with $100,000,000 or more in outstanding CEFA debt, which represents approximately 73% of all CEFA bonds outstanding.

Mr. Gomez reported that the Student Loan Program had issued $265,372,500 in bonds, with $30,315,000 in bonds currently outstanding. As of September 30, 2008, the fund balance for the Student Loan Fund was $7,447,885.10.

**Item #4** **Loyola Marymount University**
**Resolution No. 263**

Jerome LaTorre (and Summer Nishio) stated that Loyola Marymount University (LMU) was requesting $74,000,000 in bond proceeds to refinance a taxable line of credit with Bank of America N.A. that was used to redeem all of the outstanding CEFA 2001B and CEFA 2004 bonds. Representing the Borrower: Mr. Thomas O. Fleming, Senior Vice President/CFO, LMU; Mr. Eugene Carron, Esq., Bond Counsel, Orrick, Herrington & Sutcliffe LLP, and, Mr. Lewis Clinton, Senior Managing Consultant, Public Financial Management, Inc., Financial Advisor.

Staff recommended approval in an amount not to exceed $74,000,000 for Loyola Marymount University, subject to a bond rating of at least an "A" category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" category rated debt.

Mr. Jackson stated that the transaction fees for this financing seemed high and asked what the cost savings over the life of the bonds would be.

Ms. Aronberg also noted that the fees seemed high.

Mr. Clinton stated that the University had outstanding auction rate security bonds which have been reset on a weekly basis, most recently set at 12.5%. LMU is attempting to replace the auction rate bonds with a line of credit that has already been negotiated with the Bank of America. Doing so, LMU's interest rate will drop to approximately 4.0%-4.5%. LMU then intends to replace the line of credit with the issuance of variable rate tax-exempt bonds that will yield in the neighborhood of 3.5% to 4.0%. This is a tremendous savings to LMU over the life of the bonds. Mr. Clinton stated LMU has been working on this transaction since April and the cost of this transaction will include bank fees, legal fees for the line of credit, as well as the typical Cost of Issuance fees.

Mr. Sheehy asked what the slow down in the economy might mean to the University in terms of the rate of fee increases and costs to the students and how LMU might control those costs.

Mr. Fleming stated that LMU realizes tuition cannot continue to rise at the levels they have in the past and they are looking at how funds are expended and ways to cut cost in order to make fees lower than in the past. They are also looking at ways to expand the ability to get financial aid for the students.

Michael Jackson moved for adoption of the Resolution and Tom Sheehy seconded the motion. The motion was adopted with a 4-0 vote.

**Item #5** **Santa Clara University**
**Resolution No. 264**

Karma Manni (and Martha Maldonado) stated that Santa Clara University (SCU) was requesting $115,000,000 and intends to use bond proceeds to refinance a line of credit from Bank of America that was used to refinance CEFA Series 2002B and Series 2006 bonds. Additionally, SCU intends to finance various capital improvements to several Residence Halls. Ms. Manni noted that the Resolution had been changed to reflect working capital instead of swap termination fee. Representing the Borrower: Mr. Harry M. Fong, Associate Vice President for Finance, SCU; Mr. Eugene Carron, Esq., Bond Counsel, Orrick, Herrington & Sutcliffe LLP; and, Richard Chisholm, Managing Director, Banc of America Securities LLC, Underwriter.

Staff recommended approval in an amount not to exceed $115,000,000 for Santa Clara University, subject to a bond rating of at least an "A" category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" category rated debt.

Mr. Sheehy asked what SCU was doing to control costs to the students?

Mr. Fong stated that with the economic times, there is increased pressure to get new applicants and that budget talks reflect the need to control the growth of their tuition and the growth of their expenses. He stated that SCU is looking for ways to reduce costs, whether by reducing programs or by reducing salary increases and personnel costs.

Mr. Chisholm stated that Moody's recently upgraded SCU's bond rating from an "$A_1$" to "$AA_3$" and cited in the report how effective SCU was at controlling costs.

Cindy Aronberg moved for adoption of the Resolution and Tom Sheehy seconded the motion. The motion was adopted with a 4-0 vote.

**Item #6** **University of San Francisco**
**Resolution No. 265**

Martha Maldonado (and Thera Hearne) stated that the University of San Francisco (USF) was seeking $100,000,000 in bond proceeds to refund their CEFA Series 2005A and Series 2006 Auction Rate Security bonds. Staff noted that the Attorney General's Office (AG) was still in the process of determining whether financing a swap termination payment is an eligible use of bond proceeds. Representing the Borrower: Ms. Stacey Lewis, Assistant Treasurer, USF; Mr. Richard Chisholm, Managing Director and Mr. Raigen Padayachee, Vice President, Banc of America Securities LLC, Underwriter.

Staff recommended approval in an amount not to exceed $100,000,000 for the University of San Francisco, subject to a bond rating of at least an "A" category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" category rated debt.

Ms. Wynne asked for clarification from the AG on the swap termination fee and how the decision affects this resolution.

Ms. Bilaver of the AG's office and Issuer's Counsel for the Authority stated that swap termination fees became an issue in two transactions and is a new issue brought before the Board today. Ms. Bilaver stated that before the AG can issue their bond opinion, she has to verify that swap termination fees are an appropriate use of bond funds under the CEFA Act. Ms. Bilaver stated that bond counsel was able to finance working capital in connection with a new money project in place of the swap termination fee in the Santa Clara University financing, but the issue still remains with the USF transaction.

Mr. Jackson asked how the Board should move to approve this Resolution.

Ms. Bilaver stated that the language in the USF resolution has been drafted to reflect swap termination payment, if appropriate, so the Board could act on the Resolution and leave the legal decision to be determined after the meeting.

Ms. Wynne clarified that the Resolution, if passed, would authorize up to $100,000,000 for USF and if the issue cannot be resolved; the not to exceed amount would be lowered to $93,000,000.

Ms. Bilaver stated that it is common for the Resolution to have a not to exceed amount and the actual sale of the bonds comes in at a lower amount.

Mr. Sheehy asked how the fee would be paid if not by bond proceeds.

Mr. Chisholm stated that the University would pay the fee out of USF's own funds.

Mr. Sheehy noted that the Santa Clara University transaction fee was less than two percent, but the USF transaction fee was seven percent. Why was there such tremendous variability in the swap termination fees?

Mr. Chisholm stated that the swap termination fee gets larger if the rates have fallen since the time the swap was executed. If USF was executed at a higher fixed interest rate on the swap, the subsequent decline in rates would cause a larger termination fee. The calculation of the fee could either be based on a different amount of par, or based on how much rates have fallen since the rate was fixed on the swap.

Mr. Padayachee stated that there has been a significant amount of volatility which has moved the swap termination amount up and down in the market and the seven million was at a point of time where the market was at the highest level and that there has been a significant amount of volatility which has moved the swap termination amount up and down in the market.

Mr. Chisholm clarified that the termination fee has to do with the par amount of the swap, what the rates were at the time, and the amortization schedule of the underline bonds that were swapped.

Michael Jackson moved for adoption of the Resolution and Tom Sheehy seconded the motion. The motion was adopted with a 4-0 vote.

**Item #7** **Approval of the Tentative Meeting Schedule for 2009**

Jose Gomez presented the 2009 tentative Board Meeting Schedule for approval.

Tom Sheehy moved for adoption of the Resolution and Michael Carter seconded the motion. The motion was adopted with a 4-0 vote.

Mr. Jackson asked if the Authority had been contacted by other schools that are in similar situations and in need of refinancing their debt.

Mr. Gomez stated that the Authority receives several refinancing requests every year and stated there were at least two financings with Auction Rate Securities. Mr. Gomez stated that staff will be reaching out to these borrowers.

No public comment, the meeting was adjourned at 2:00 p.m.

Respectfully submitted by,

Jose A. Gomez
Executive Director