

MINUTES

CALIFORNIA EDUCATIONAL
FACILITIES AUTHORITY ("CEFA")
5th Floor Conference Room
915 Capitol Mall, Room 587
Sacramento, California 95814

A PORTION OF THIS MEETING
WAS HELD JOINTLY WITH THE
CALIFORNIA HEALTH FACILITIES FINANCING
AUTHORITY ("CHFFA")

Thursday - July 29, 2010

1:30 PM

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

CEFA Roll Call

Members Present: Patricia Wynne for Bill Lockyer, State Treasurer, Chairperson
John Hiber for John Chiang, State Controller, Vice-Chairperson
Cynthia Bryant for Ana Matosantos, Director, Department of Finance
Sylvia Scott-Hayes

Member Absent: Michael Jackson

Staff Present: Ronald Washington, Executive Director
Rosalind Brewer, Deputy Executive Director

Chairperson Wynne declared a quorum present.

The minutes from the CEFA June 24, 2010 meeting were approved. Cynthia Bryant moved for approval of the minutes; Sylvia Scott-Hayes seconded the motion. The motion was adopted 4-0.

CEFA's Executive Director's Report

Mr. Washington reported the Executive Director's report for June 30, 2010 noting the following: As of June 30, 2010, total debt issued for CEFA was \$9,928,128,538, total debt outstanding was \$4,736,523,782, and the CEFA fund balance reflected \$4,566,990, and the top borrowers remained relatively unchanged. As of June 30, 2010, the Student Loan Program had issued \$265,372,500 in bonds, total debt outstanding was \$17,590,000, and the fund balance reflected \$7,609,765.

Mr. Washington concluded his report with a brief introduction of CEFA's new Executive Assistant Angela Harris.

Item #4

Delegation of Powers, Stanford University

Mr. Washington reported the Delegation of Powers action taken for Stanford University. Mr. Washington stated that the Authority executed the First Supplemental Tax Agreement, authorizing the increased amount of bond proceeds to be utilized for refunding on July 20, 2010. Mr. Washington reported that after an Opinion of Issuer's Counsel was delivered to the Authority, the First Supplemental Tax Agreement was executed.

Item #5

Election of Vice Chairperson

Ms. Brewer stated that the CEFA Authority Act requires an annual election of a vice-chairperson on or after April 30 of each year. The State Controller currently serves as the vice-chairperson. Staff recommended the Board nominate and elect a vice-chairperson. Cynthia Bryant nominated the Controller for vice-chairperson and Sylvia Scott-Hayes seconded it. Motion adopted 4-0.

Item #6

CHFFA Roll Call

Deputy Treasurer Patricia Wynne, serving as Chairperson, called the CHFFA meeting to order at 1:45 p.m. and declared a quorum present after the secretary called the roll.

Item #7

Guideline Working Group Update: Proposed Staff Report Methodology

CHFFA Executive Director Barbara Liebert introduced John Bonow, Public Finance Management ("PFM"); Diane Potter, Orrick, Herrington & Sutcliffe LLP, and Robyn Helmlinger, Sidley Austin LLP. Ms. Liebert then reminded the board that at the close of the last board meeting, board members asked staff to prepare a staff report reflecting the new proposed guideline methodology to better demonstrate how it might appear in the staff reports board members see every month. Ms. Liebert indicated staff selected the Children's Hospital of Los Angeles ("CHLA") transaction, previously before the CHFFA board in February and April of 2010, because of the split ratings and number of exceptions the board had to consider for that transaction. Ms. Liebert then gave an overview of the enclosures within each board member's packet, including:

Exhibit A - The entire proposed new methodology for bond application submission and review, inclusive of the new staff methodology.

Exhibit B - An excerpt from Exhibit A showing the relevant review process which leads to the new methodology staff recommends including within Authority staff reports (also previously presented to the board at the June 24, 2010 meeting). This is an extraction from Exhibit A and focuses on the new methodology that has been proposed to the board for consideration.

Exhibit C - Original CHLA staff report (please note, in the spirit of efficiency, staff combined the two reports generated for the two separate CHLA agenda items for February 25, 2010 and April 29, 2010 inasmuch as they were essentially identical with the exception of the fixed and variable rate pieces of the transaction).

Exhibit D - Redlined CHLA staff report, incorporating the new proposed methodology.

Exhibit E - Clean CHLA staff report, incorporating the new proposed methodology.

Ms. Liebert underscored the working group's adherence to the respective missions of CEFA and CHFFA throughout the development of the new proposed guideline methodology. Ms. Liebert also explained that the working group endeavored to increase staff's overall due diligence and to minimize the risks faced by the Authorities. Ms. Liebert stated that one of the goals was to update the Authorities' existing processes by making it more reflective of current market conditions, but also keeping it flexible in the event that as changes occurred, as they often do, the Authorities would be more capable of responding to those changes in the market. Ms. Liebert reminded CEFA and CHFFA board members that the proposed guideline methodology applies only to investment grade public offering transactions. Ms. Liebert explained that Ms. Potter would then review Exhibits A through E in more detail.

Prior to Ms. Potter beginning, Chairperson Wynne asked if there would be any significant difference between CHFFA and CEFA's new guidelines. Mr. Washington responded that he did not believe there would be any significant differences. Mr. Washington stated that with the exception of CHFFA's debt service coverage ratio requirement in their guidelines, they are largely similar to CEFA's and that the guidelines Ms. Potter would be reviewing with the board would apply to CHFFA and CEFA almost seamlessly.

Ms. Potter then provided a comprehensive overview of Exhibits A through E and reminded the board that the working group is also dedicating a portion of their time to reviewing all bond documents to create standard provisions and to highlight provisions which might have some measure of flexibility. Ms. Potter noted this would be a separate item for board consideration in the immediate future.

Ms. Potter then discussed the staff evaluation process in some detail. Ms. Potter stated that it was the working group's goal to try and get away from detail that might require regulations and detail that might perpetuate the need for exceptions. Ms. Potter then guided the Board through the redline CHLA staff report.

CHFFA Board member Sumi Sousa commented that it appears the new proposed methodology would expand PFM's role beyond their existing role as pricing advisor. Mr. Bonow confirmed Ms. Sousa's observation noting that PFM's role would, at least temporarily, begin at the inception of each transaction rather than at the tail end of the transaction with the pricing of the bonds as has been the Authority's historical practice.

Ms. Sousa then queried whether regulations might be required. Ms. Liebert noted the absence of the Attorney General's office at the meeting, but Ms. Kristin Smith, State Treasurer Office Legal Counsel, approached the table and offered her understanding that the Attorney General's Office opined Authority guidelines give appropriate flexibility and if the board is more inclined to apply rigid rules to every transaction, regulations may then be required.

After discussion among board members, task force members and Ms. Liebert, with regard to the need for regulations versus guidelines, the discussion shifted to the additional costs the Authority would bear with the increased role of PFM, including whether the bond fees earned by the Authority would be sufficient to pay the fees associated with PFM's increased involvement on transactions and whether the Authority plans to pass those costs on to the borrower. A short discussion among board members, task force members and Ms. Liebert ensued. Ms. Liebert indicated bond fees would likely be sufficient and that more than likely, PFM's involvement would taper down over time, leading to lower fees from transaction to transaction.

After Ms. Potter completed her overview of the exhibits, Chairperson Wynne opened it up for questions. Mr. Hiber from the State Controller's Office, had specific questions.

Mr. Hiber thanked Ms. Potter and Mr. Bonow for the overview which he indicated answered a number of questions for him. Mr. Hiber then expressed his desire to include a minimum debt service coverage requirement, as well as his concern for allowing split rated borrowers to elect to use the highest rated credit. Mr. Hiber also expressed reservations about including Baa3/BBB- in the investment grade category, preferring instead to limit the investment grade category to Baa2/BBB and higher. Lastly, Mr. Hiber expressed his desire for the advisors of the Authorities (PFM and Macias, Gini, & O'Connell) to supply written letters of concurrence for all bond transactions presented to the Authority for consideration.

In response to Mr. Hiber's initial concern regarding debt service coverage requirements, Mr. Bonow noted the unique situation of each borrower coming before the board, including the differences seen in their cash flows and general operations. Mr. Bonow suggested that because of the varied differences in the nature of borrowers appearing before the Authorities, mandating a minimum debt service coverage metric is arbitrary. Mr. Bonow expressed that, in his judgment, mandating a minimum ratio was not something the authorities should continue, particularly because of the potential need for exceptions related to an arbitrarily established metric. Ms. Potter added that CEFA currently does not include a minimum debt coverage ratio as a part of their guidelines and one of the marching orders for the working group was to develop a uniform policy between the various conduit issuing authorities for which the State Treasurer acts as Chair.

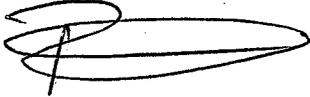
In response to Mr. Hiber's concern regarding the minimum rating the Authorities should accept for a public offering (Baa2/BBB vs. Baa3/BBB-), Mr. Bonow stated that it has been the task force's orientation to focus on what the minimum rating reflects and what the disclosures to the investor might include. Mr. Bonow further stated that the task force examined the default history of education and healthcare bonds, including for those borrowers below the investment grade category. After analyzing this data, Mr. Bonow noted that it appears arbitrary to draw the line of distinction at anywhere other than between the investment grade and non-investment grade categories.

Chairperson Wynne asked Mr. Bonow for his thoughts in response Mr. Hiber's desire for written letters of concurrence in support of bond transactions before the Authorities. Mr. Bonow provided this is a practice his firm has been asked to do on occasion by other Authorities and that he could certainly provide a draft of such a letter for staff review and board consideration.

After continued discussion amongst all board members, Chairperson Wynne suggested that the board continue to ponder these issues prior to the next board meeting.

After additional discussion among Board members and task force members, Chairperson Wynne brought the discussion to a close and set this matter for action at a future meeting. Chairperson Wynne asked for public comment for CEFA. Hearing none, Chairperson Wynne adjourned the CEFA meeting at 3:16 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to be 'R. Washington', enclosed within a large, hand-drawn oval scribble.

Ronald L. Washington
Executive Director