MINUTES

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

Thursday August 26, 2010

1:15PM

Deputy Treasurer Patricia Wynne, serving as Chairperson, called the CEFA meeting to order at 1:25 p.m.

CEFA Roll Call

Members Present: Patricia Wynne for Bill Lockyer, State Treasurer, Chairperson
John Hiber for John Chiang, State Controller, Vice-Chairperson
Karen Finn for Ana Matosantos, Director, Department of Finance

Members Absent: Michael Jackson
Sylvia Scott-Hayes

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

Chairperson Wynne declared a quorum present.

Approval of the minutes from CEFA's July 29, 2010 meeting was moved to the next meeting.

CEFA's Executive Director's Report
Mr. Washington reported as of June 30, 2010, total debt issued for CEFA was approximately $9,928,128,538 and total debt outstanding was $4,736,523,782, and the CEFA fund balance reflected $4,747,990. As of June 30, 2010, total debt issued for the Student Loan Program was $265,372,500 and total debt outstanding was $17,035,000, and the Student Loan fund balance reflected $7,609,765.

Mr. Washington concluded his report with a brief explanation that the list of top ten borrowers remained unchanged as CEFA had not issued additional debt.

Item #4 Art Center College of Design Resolution No. 275
Ms. Brewer stated Art Center College of Design (Art Center) intended to supplement and amend its CEFA Series 2002 and 2009 Indentures and Loan Agreements to include a new interest rate mode, which is called an Index Rate Mode.

Ms. Brewer introduced Mr. Richard Haluschak, Chief Financial Officer of Art Center; Mr. Doug Brown, Wells Fargo Securities, Underwriter; and Mr. Eugene Carron, Esq., Orrick, Herrington & Sutcliffe, Bond Counsel.

Ms. Brewer stated that Art Center was requesting to supplement and amend its 2002 and 2009 Indentures and Loan Agreements to include a new interest rate mode ("Index Rate Mode") and certain provisions relating to the Index Rate Mode.

Art Center came before and was approved by the CEFA Board for bond financing at the March 28, 2002 and July 30, 2009 Authority meetings. Both the CEFA Series 2002 and Series 2009 bond series were issued in variable rate mode with Letters of Credit ("LOC") supplied by Wells Fargo Bank, N.A. ("Wells Fargo"). As of August 1, 2010, $30,330,000 of the CEFA Series 2002 and 2009 bonds remain outstanding.

The LOCs securing the bonds are set to expire September 1, 2010. Art Center has decided to neither extend the current LOC nor pursue a replacement credit facility, but instead to adjust the existing bond documents to provide for a remarketing of the bonds to the current LOC bank and apply a new interest rate mode for a period of five years. By doing so, Art Center expects to save approximately $250,000 over five years on fees and costs associated with carrying an LOC. Further, Art Center will eliminate "remarketing risk" during the five year period.

As a result of the LOC expiration, and pursuant to the current bond documents, the bonds will be subject to a mandatory tender on August 27, 2010. Art Center will redeem and purchase $330,000 of the bonds and $30,000,000 will be remarketed to Wells Fargo, who has agreed to purchase the bonds in the new Index Rate Mode for an initial period (up to five years). Wells Fargo will be the sole holder of the bonds upon such remarketing.

Without a credit facility securing the bond, the bonds will be unrated debt. Under the Authority's current bond guidelines, unrated debt issuances require a debt service reserve account and a security interest in property equal to 100% of the debt. Art Center was requesting an exception to the guidelines to forgo a reserve requirement entirely and approve a modified security interest in property. Concurrently with the proposed amendments, Art Center will grant a lien upon and security interest in its gross revenues and certain other real property of Art Center. These liens would secure the Art Center bonds as well as a swap agreement with Wells Fargo. The deed of trust property included the Borrower's main campus which was recently appraised at a value of $70 million. The Borrower expected that the value of the deed of trust property would exceed the sum of potential obligations under the bonds and the swap agreement secured by the deed of trust.

Staff recommended the Authority approve Resolution No. 275 authorizing the execution and delivery of the Supplemental Loan Agreements and Indentures relating to the Art Center's Series 2002 and 2009 bonds.

Chairperson Wynne asked the borrower and the financing team to discuss the transaction and how the modified security would work, ensuring both CEFA and the borrowers being protected. Mr. Brown explained the modified security, how it benefited CEFA, and reassured the borrower's protection.

Before moving to a motion and vote, Ms. Brewer requested the Board approve a change of the existing resolution number for ministerial reasons from Resolution Number 275 to Resolution Number 2010-02. The request for reassignment was for administrative and internal tracking purposes only.

Chairperson Wynne recognized the request and approved the change; then proceeded to ask if there were any questions from the Board members or the public. With no further questions or public comments or questions, Mr. Hiber moved for approval of the resolution, as amended. Ms. Finn seconded the motion. The Board passed this item unanimously.

Item #5 Santa Clara University, Resolution No. 276

Cheryl Ide, Staff Analyst, introduced Mr. Harry Fong, Associate Vice President of Santa Clara University, Mr. Oliver Zlomislic, Vice President of Morgan Stanley, Underwriter, and Mr. Eugene Carron, Esq., Orrick, Herrington & Sutcliffe, Bond Counsel. Ms. Ide stated that Santa Clara University was requesting financing of $53,500,000 in bonds. Bond proceeds would be used to complete major renovations to several residents' halls. In addition, a portion of bond proceeds would be used to refund CEFA Series 2002A. The present value savings for refunding would be approximately $540,000 over the life of the bond in the current market.

Staff recommended the Authority approve Resolution No. 276 in an amount not to exceed $53,500,000 for Santa Clara University, subject to the bonds having at least an "A" category rating by a nationally recognized rating agency and meeting the standard bond issuance provisions for "A" rated debt.

Chairperson Wynne solicited further public comments or questions; hearing none Chairperson Wynne proceeded with the motion. Ms. Finn moved adoption of Resolution No. 276 and it was seconded by Mr. Hiber. The Board passed the item unanimously.

Item #6 **Working Group Update: Proposed Guideline Recommendations for CEFA Tax Exempt Bond Programs**

Chairperson Wynne stated the next item of business would remain as an information item due to the absence of Board members.

Mr. Washington began the presentation by introducing guest members of the working group: Ms. Diane Potter, Orrick, Herrington & Sutcliffe and Mr. John Bonow, Public Finance Management via teleconference.

Mr. Washington provided a synopsis of how the staff and the Board had arrived to this point in the process of updating the bond guidelines for both CEFA and CHFFA.

Ms. Potter provided a brief synopsis as supplemental information for Ms. Finn.

Chairperson Wynne shifted the Board's attention to Appendix D, this appendix shows a detailed before and after analysis prompting the new requirements that condition their approval.

Chairperson Wynne recognized Mr. Hiber. Chairperson Wynne commented that the State Controller's Office had a number of concerns with the proposed guidelines over the last few presentations and wanted to obtain Mr. Hiber's comfort level with some of the issues raised. Mr. Hiber indicated that the State Controller's Office understood the Authority's rational for revising the guidelines and supported the process. He did, however, have some concerns, one being the move from triple Baa3/BBB- to Baa2/BBB. The other concern was the use of the highest rating if the borrower had split ratings. It was clarified that if a borrower had a split rating and one rating was below investment grade, the borrower would not qualify for financing. After hearing and addressing other issues of concern by the State Controller's Office, including minimum debt service coverage ratios and written certification letters from advisors that participate on behalf of the Authorities. Ms. Liebert provided a description of the services that Public Financial Management, Inc. provides the Authorities. Mr. Washington further provided an overview to Mr. Hiber of what Macias Gini & O'Connell LLP does for the Authorities. Chairperson Wynne indicated that while the Board is not voting on these guidelines today, she felt more comfortable with staff making recommendations to the Board rather than outside advisors.

Mr. Washington mention that staff was looking to consider all the comments from board members ensuring that staff are adequately address their concerns.

Chairperson Wynne brought the meeting to a close by stating that discussion had decreased the number of outstanding concerns to just a couple. Chairperson Wynne directed staff to continue focusing the conversation throughout the month ahead and in the staff report, to address both the minimum debt service ratio and how to address the proposed certification letters from our advisors.

Chairperson Wynne asked for further questions from the Board. Hearing none, Chairperson Wynne asked for public comment. Hearing none, Chairperson Wynne adjourned the CEFA meeting at 2:15 p.m.

Respectfully submitted,

Ronald L. Washington
Executive Director