

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

Tax-Exempt Bond Program-Consideration of Fees Increase

Information Item

February 28, 2013

Executive Summary

Background: The CEFA Act, among other things, authorizes the Authority to charge and equitably apportion among participating colleges, its administrative costs and expenses incurred in the exercise of its powers and duties. Current tax-exempt bond program fees, which are intended to cover staff time in reviewing applications, preparing staff summaries for submission to scheduled Authority meetings, annual review of financial and other information on borrowers, and business expenses for the operation of CEFA, including but not limited to the Attorney General's Office, Public Finance Division and contracts for financial advisors, issuer counsel, and auditing and reporting services, are as follows:

| | |
|---------------------------|--|
| Application Fee | \$1,000 |
| Initial Fee | 0.15 % of issue amount (up to a maximum of \$75,000) |
| Annual Administrative Fee | \$500 for first 5 years, \$250 thereafter |

All fees are deposited into the CEFA Fund (the "Fund") and all expenses are paid from the Fund. No State General Fund moneys are available nor required for the operation of the Authority. In addition, interest earnings from the investment of the Fund in the State's Surplus Money Investment Fund (SMIF) are deposited directly to the Fund. The Fund as of January 31, 2013 stood at \$3,384,799.

Discussion: The Fund should be maintained at an amount sufficient to cover the normal and extraordinary costs of operation of the Authority. A recap of the revenues and expenses of CEFA for the past four years is shown in the table below:

| As of June 30, | 2012 | 2011 | 2010 | 2009 |
|----------------------|--------------------|--------------------|--------------------|--------------------|
| Fee Income | \$411,745 | \$303,542 | \$360,785 | \$755,751 |
| SMIF Income | \$14,765 | \$21,760 | \$31,205 | \$102,882 |
| Total Income | \$426,510 | \$325,302 | \$391,990 | \$858,633 |
| | | | | |
| Expenses | (\$762,645) | (\$857,436) | (\$514,276) | (\$732,783) |
| Net Income | (\$336,135) | (\$532,134) | (\$122,286) | \$125,850 |
| | | | | |
| Fund Balance | \$3,698,722 | \$4,034,857 | \$4,566,990 | \$4,689,276 |
| | | | | |
| # of Bond financings | 9 | 8 | 5 | 11 |
| Par Amt. Issued | \$320,320,000 | \$257,370,000 | \$403,710,000 | \$961,975,000 |

The above table illustrates the Authority's shortfalls in net income over the past four years. While there has been a focused effort to reduce CEFA's general expenditures over recent years, expenses continue to exceed revenues. Fee income represents the primary source of Authority's revenue. Fees have not been adjusted to accommodate increases to external contracts and post-issuance costs as well as the increased frequency of amendments and other changes to bond documents after a transaction has closed. The fee schedule listed above, has been in place since 1997 and now needs to be adjusted to cover increased operational and bond related expenses while maintaining a fund balance sufficient to support the authority's ongoing fiduciary responsibilities while still remaining attractive to CEFA's college and university partners.

In response to the increased costs, staff asked Public Financial Management, Inc. ("PFM") to analyze the Authority's current fee structure. Working with staff, PFM analyzed the Authority's fixed operational expenses, variable expenses related to work on current or past bond financings, historical issuance trends, as well as the Authority's fund balances and interest earnings. PFM also compared the Authority's fees schedule against five other conduit financing authorities' fee schedules.

PFM concluded that the Authority should consider two changes to its **Annual Administrative Fee**:

- 1) For new issuances – Change the fee structure from a flat fee to a basis point structure whereby, beginning July 1, 2013, borrowers would be charged 0.015% (1.5 basis points) of the par amount outstanding.
- 2) For outstanding issuances – The Annual Administrative Fee charged would be \$500 annually, per series, for the life of the issuance.

The changes in fee structure will address the Authority's ability to remain competitive. While CEFA has been the issuer of tax-exempt bonds for many private, non-profit colleges and universities in California, it is not the only eligible issuer. Borrowers are looking for competitive costs for services rendered on bond transactions, from investment bankers, to financial advisors, to bond counsel and will expect CEFA to provide its services at a reasonable cost as well.

CEFA has established a moderate Fund balance with which to operate the Authority and carry out the duties and functions defined in the Act. The recommended adjustments to the Annual Administrative Fee will allow the Fund balance to be maintained for an extended period of time, while continuing to provide a cost effective service to eligible borrowers.

Staff will revisit the fee schedule in one year and annually thereafter to evaluate the impact of the changes.

At this time, staff seeks the Authority's input on the proposed fee increases.