

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

Bond Program Fee Restructure

Resolution No. 2013-02

July 25, 2013

Executive Summary

Background: At the February 28, 2013 Authority meeting, staff informed the Authority that the current bond program fee structure has been in place since 1997 and that given the increased operational and bond related cost, it is necessary and appropriate to restructure CEFA's fees. Attached are the February 28, 2013 staff report and the Authority's current fee schedule.

For the past several months, staff has worked closely with the Authority's financial advisor, Public Financial Management, Inc. ("PFM"), to arrive at a restructured fee level that would allow the Authority to maintain a fund balance sufficient to support the increased operational and bond related costs and support ongoing fiduciary responsibilities, while remaining competitive for private non-profit colleges and universities.

PFM also compared the Authority's fee schedule against five other conduit financing authorities' fee schedules. The restructuring of CEFA's Initial Fee and the Annual Administrative Fee will address the Authority's ability to remain competitive. The enclosed charts display the projections, which support the conclusion and recommendations reached by PFM and supported by staff.

Request: Staff is recommending the following changes to the current fee structure:

Initial Fee

Current: 0.15% of the issuance amount (up to a maximum of \$75,000).

Recommended Change: **0.15% of the par amount up to \$25mm, plus 0.05% of the par amount in excess of \$25mm (up to a maximum fee of \$75,000).**

Annual Administrative Fee

Current: \$500 annually for the first five years that the debt is outstanding and \$250 annually thereafter.

Recommended Change: **For issuances closed on or before July 31, 2013:
\$500 annual fee per series.**

**For issuances closed August 1, 2013 and thereafter;
0.015% of the par amount outstanding
(up to a maximum fee of \$12,000).**

Application Fee - No change is being recommended at this time

Staff will review the fee schedule in one year, and annually thereafter to evaluate the impact of the restructured fee schedule.

Staff recommends the Authority approve Resolution No. 2013-02.

Resolution No. 2013-02

Resolution of the California Educational Facilities Authority Authorizing the Restructuring of Fees for the Bond Program

July 25, 2013

WHEREAS, the California Educational Facilities Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Educational Facilities Authority Act (the "Act") to issue bonds, notes, debentures or other securities, including commercial paper notes, to finance and refinance the acquisition, construction, expansion, rehabilitation, remodeling, renovation and equipping of educational facilities by participating private colleges (as defined in the Act) situated within the State of California; and

WHEREAS, the Authority desires to remain viable and competitive, and accordingly revise portions of its existing Program Fee Schedules as hereinafter set forth;

NOW, THEREFORE, BE IT RESOLVED by the California Educational Facilities Authority, as follows:

Section 1. The Authority hereby approves the following changes to the fees set for the Bond Program:

- A. The Initial Fee is changed from 0.15% of the par amount (up to a maximum fee of \$75,000) to 0.15% of the par amount up to \$25 million, plus 0.05% of the par amount in excess of \$25 million (up to a maximum fee of \$75,000). The Initial Fee is due and payable at closing; and
- B. The Annual Administrative Fee of \$500 annually for the first five years that the debt is outstanding, and \$250 annually thereafter is changed to the following: Annual Administrative Fee of \$500 for issuances that closed on or before July 31, 2013; and for issuances that closed August 1, 2013 and thereafter, the Annual Administrative Fee will be 0.015% of the outstanding par amount (up to a maximum fee of \$12,000).

Section 2. In consultation with the Authority's financial advisor, Authority staff is hereby directed to annually review the Authority's income, expenses and changes to the Authority's fund balance and to present the review, any findings deriving therefrom and any recommendations as may be appropriate to the Authority.

Section 3. The Executive Director is hereby authorized and directed to do any and all things and to execute and deliver any documents, which the Executive Director may deem necessary or advisable in order to effectuate the purposes of this resolution and the directions contemplated herein.

Section 4. All other features and requirements of the Program Fee Schedule remain unchanged.

Date of Adoption: _____

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	<u>\$3,698,722</u>	<u>\$4,034,857</u>	<u>\$4,566,990</u>	<u>\$4,689,276</u>
# 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.



CALIFORNIA STATE TREASURER
Bill Lockyer



CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

Bond Financing Program Fees

Application Fee

\$1,000 non-refundable and submitted with the application.

Initial Fee

.15% of the issue amount (up to a maximum of \$75,000). The initial fee is due and payable at closing.

Administrative Fee

\$500 annually for the first five years that the debt is outstanding, and \$250 annually thereafter.

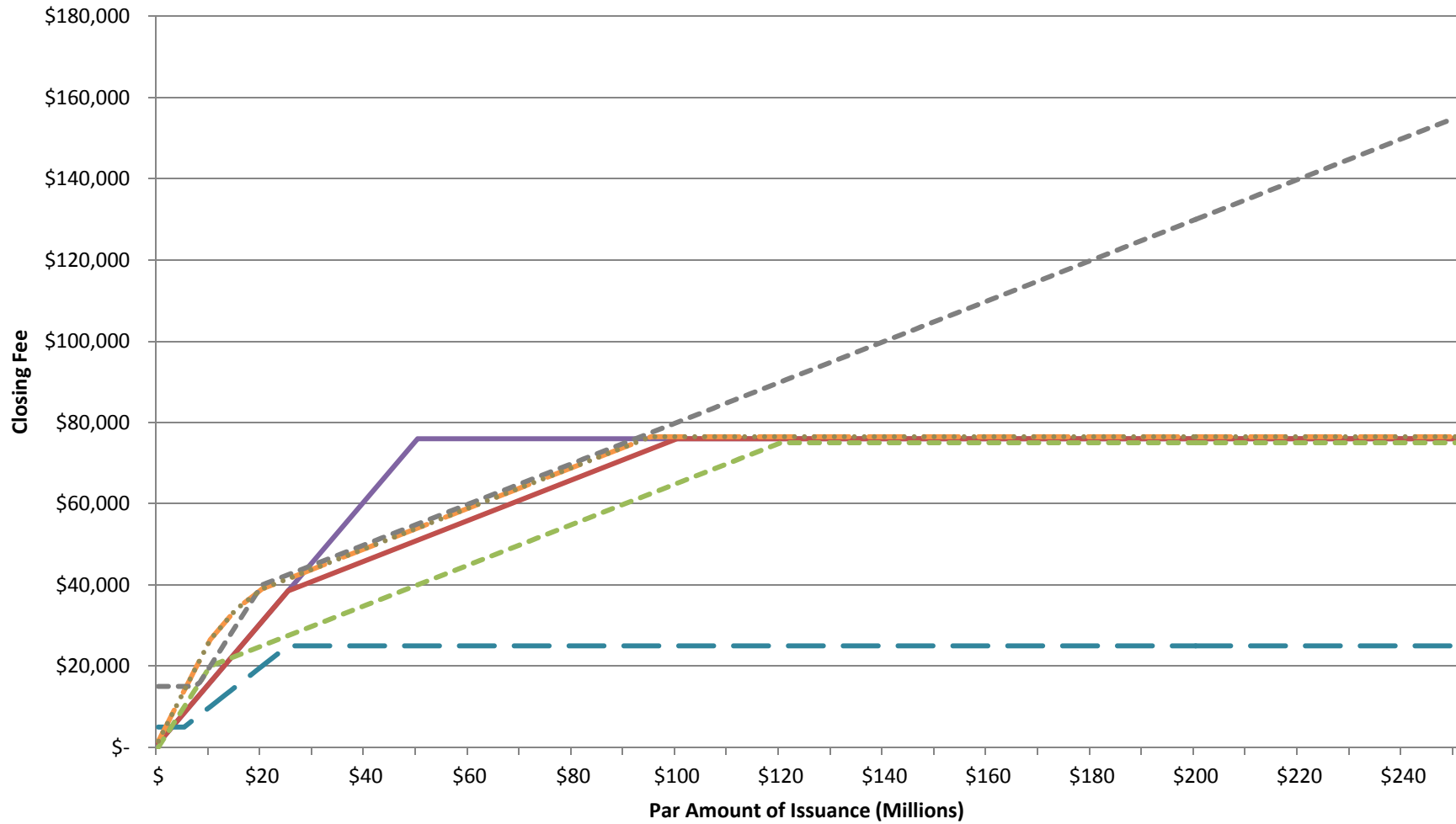
Additional Costs

Other costs of issuance for bond issues, including fees of Bond Counsel, Underwriters, Financial Advisors, Trustees, etc., are payable by the applicant at closing and are separate from Authority fees. Please contact the Authority for more information regarding use of these professional firms in bond transactions and financing limitations on fees.

Annual Trends - July 18, 2013



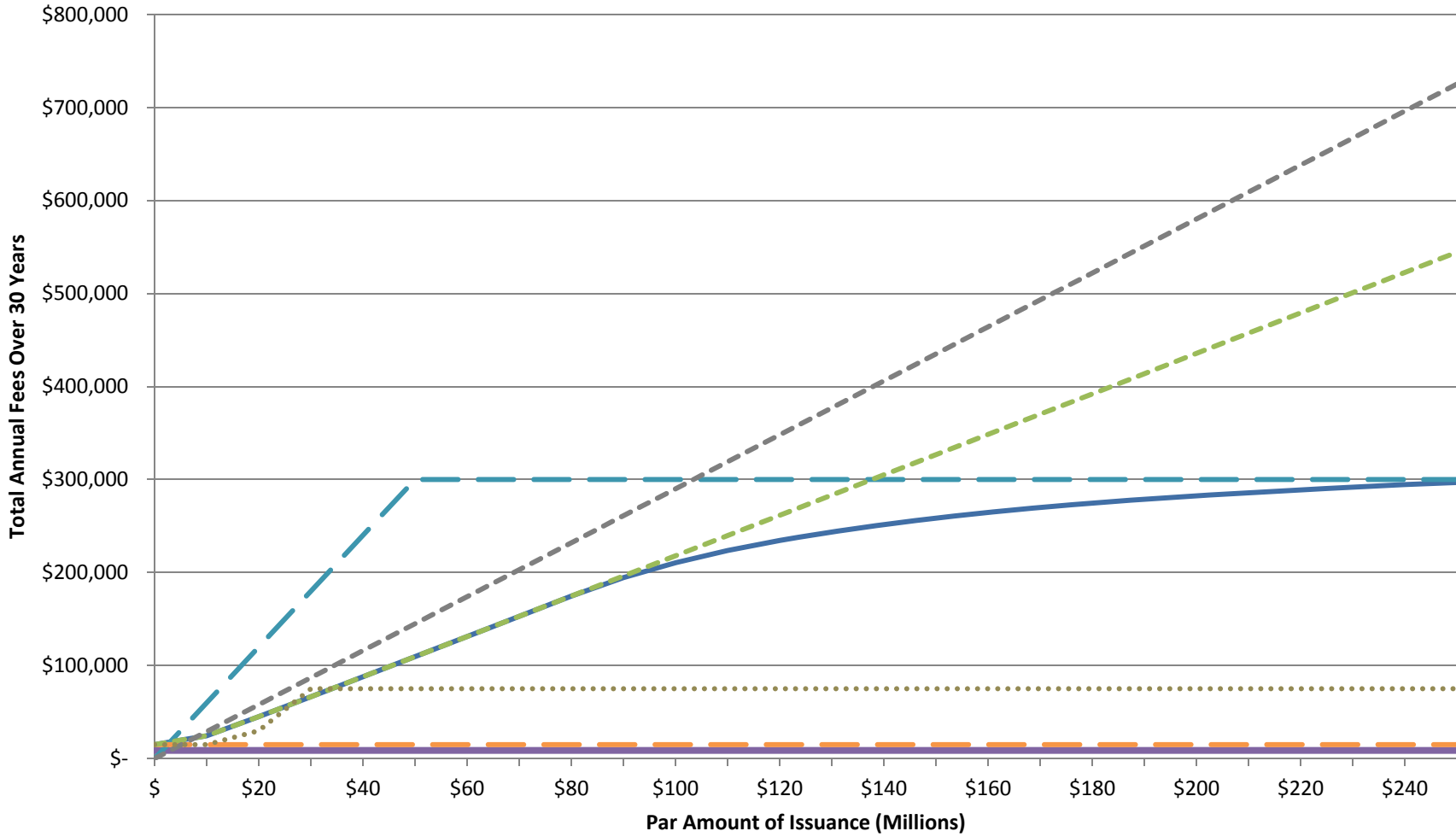
Closing Fees Comparison - July 19, 2013 (Investment Grade, Non-Credit Enhanced)



- CEFA (Current Fee Structure)
- CEFA (15bps, 5bps after \$25MM)
- ABAG
- I-Bank
- CMFA
- CSCDA
- CEDA

Annual Fees Comparison - July 19, 2013

(Assumes Equal Principal Amortization Over 30 Years)



— CEFA (Current Fee Structure)
 — CEFA (0.015%, \$12k Cap)
 - - - ABAG
 — I-Bank
 - - - CMFA
 - - - CSCDA
 · · · CEDA

Fund Balance Projections - July 18, 2013

(2010-12 Average Issuance Levels, 3.5% Operating Cost Growth)

