

MINUTES

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY (“CEFA”)

5th Floor Conference Room
915 Capitol Mall, Room 587
Sacramento, California 95814

Thursday, December 5, 2013

1:00 PM

Deputy Treasurer Bettina Redway, serving as Chairperson, called the CEFA meeting to order at 1:03p.m.

CEFA Roll Call

Members Present: Bettina Redway for Bill Lockyer, State Treasurer, Chairperson
Alan Gordon for John Chiang, State Controller, Vice-Chairperson
Eraina L. Ortega for Michael Cohen, Director, Department of Finance
Stacy Lewis Daher
William G. McGinnis

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

Chairperson Redway declared a quorum present.

The minutes from the CEFA July 25, 2013 meeting were approved. Mr. Gordon moved for approval of the minutes; Mr. McGinnis seconded it. Motion adopted 5-0.

CEFA’s Executive Director’s Report

Mr. Washington presented the Executive Director’s report as of July 31, 2013, August 31, 2013, September 30, 2013, and October 31, 2013 that reflected total and outstanding debt and program balances and noted that the top ten borrowers remained relatively unchanged.

Mr. Washington presented the Delegation of Powers regarding Stanford University (“Stanford”). He stated that Stanford notified the Authority in August 2013 of the resignation of Deutsche Bank National Trust Company (“Deutsche Bank”) as Trustee and requested U.S. Bank National Association (“U.S. Bank”) to be appointed as successor. Stanford requested the Authority to acknowledge the appointment of U.S. Bank as Issuing and Paying Agent and to waive the notice requirements. In consultation with the Attorney General’s Office, the CEFA Executive Director accepted the resignation of Deutsche Bank and appointed U.S. Bank as Successor Trustee, acknowledged the appointment of U.S. Bank as Issuing and Paying Agent and waived the notice requirement.

Mr. Washington presented the Delegation of Powers regarding University of the Pacific (“UOP”). He stated that UOP notified the Authority in August 2013 of its intention to defease a portion of the Series 2004, Series 2006, and Series 2009 bonds. UOP requested the Authority execute a Certificate and Request of the Authority Regarding Partial Defeasance, which would authorize the Escrow Trustee to make payments on the bonds when due. Under direction from STO Legal Counsel, the CEFA Executive Director executed the Certificate and Request of the Authority Regarding Partial Defeasance relating to the CEFA Series 2004, Series 2006, and Series 2009 bonds.

Mr. Washington presented the Delegation of Powers regarding Keck Graduate Institute of Applied Life Sciences (“Keck”). He stated that Keck notified the Authority in September 2013 of its intention to redeem its portion of the outstanding College and University Financing Program, Series 2007 bonds and

requested the Authority to direct the Trustee to redeem the bonds on October 1, 2013. In consultation with the STO Legal Counsel, the CEFA Executive Director executed an Escrow Agreement and a Notice of Optional Redemption, directing the Trustee, Wells Fargo Bank, N.A., to send a notice of optional redemption to all bond holders and other interested parties in accordance with Section 4.4 of the Indenture.

Mr. Washington introduced Tyler Bui, the new Staff Services Analyst for CEFA.

Master Delegation Resolution for Bond Financings

Item # 4

Amendment to Resolution No. 2013-01

Ms. Brewer presented the Amendment to the Master Delegation Resolution for Bond Financings that authorizes the Authority to delegate to the Executive Director or any other official or employee of the Authority, any powers and duties that the Authority deems proper. Ms. Brewer noted that Section 4, "Pre-Closing Modifications," has been added to the delegation resolution to provide the Executive Director with the authority to make certain changes during the period of time after Authority approval and before transaction closing. Additionally, Section 4, "Pre-Closing Modifications," is a uniform change throughout the boards, commissions, and authorities within the State Treasurer's Office.

Ms. Brewer added that the Master Delegation Resolution for Bond Financings will come before the Authority every two years. Resolution No. 2013-01 will expire January 31, 2015.

Staff recommended the Authority approve the Amendment to Resolution No. 2013-01.

Mr. Gordon moved for adoption of the Resolution and Ms. Ortega seconded it. Motion adopted 5-0.

Bond Program Fee Restructure

Item # 5

Amendment to Resolution No. 2013-02

Mr. Washington stated that the Authority approved Resolution No. 2013-02 at the July 25, 2013, which restructured CEFA's Bond Program Fees with direction for staff to revisit the fee schedule in one year and annually thereafter to evaluate the impact of the changes. Mr. Washington stated that while the changes in the fee structure addressed the Authority's ability to maintain a fund balance sufficient to support the increased operational and bond related costs and support ongoing fiduciary responsibilities, staff continues to look for ways to remain competitive for private, non-profit colleges and universities.

Mr. Washington reported that staff has worked closely with its financial advisor, Public Financial Management and recommended the following adjustments to the fee structure:

- A. The current Initial Fee is 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 recommendation is to change to 0.15% of the par amount up to \$10 million, plus 0.05% of the par amount in excess of \$10 million (up to a maximum fee of \$75,000).

- B. The current Application Fee is \$1,000 non-refundable and submitted with the application.

The recommendation is to credit the \$1,000 Application Fee towards the Initial Fee.

Representing Public Financial Management, Inc.: Sarah Hollenbeck, Director and Nicholas Jones, Senior Analyst.

Staff recommended that the Authority approve the Amendment to Resolution No. 2013-02.

Mr. Gordon moved for adoption of the Resolution and Ms. Lewis Daher seconded it. Motion adopted 5-0.

**Cal Loan Student Loan Program
Resolution No. 2013-04**

Item # 6

Mr. Washington presented Resolution No. 2013-04 requesting a Second Amendment to the Second Amended and Restated Administration Agreement which would allow ALL Student Loan (“ALL”), as Administrator of the Cal Loan Student Loan Program (“Cal Loan”), to hire a consultant to review the Cal Loan portfolio for the potential sale of the student loans. Mr. Washington stated that at the February 28, 2013 Authority meeting, Macias Gini & O'Connell LLP (“Macias”), the Authority’s financial analyst, submitted a financial analysis which projected a shortfall of \$4 million after the performing loans are paid off in 2017. To minimize the potential shortfalls, Macias recommended CEFA consider the following actions:

- Redeem bonds early to reduce annual bond interest expenses.
- Implement more aggressive collection strategies for non-performing loans.

Mr. Washington stated that early redemption of the outstanding bonds would eliminate approximately \$1.7 million in annual bond interest and administrative expenses through 2017.

Mr. Washington also stated that ALL hired a third collection agency, Firstmark Services, LLC (“Firstmark”), in August 2013. Firstmark currently holds 457 borrowers with 875 defaulted loans totaling over \$10,918,000 for further collection actions. As of October 31, 2013, Firstmark had collected over \$33,000 and has settled four accounts totaling over \$41,230.

Representing ALL Student Loan: Andre Afshar, Managing Director and Dawn Smith, Director, Strategic Planning, Compliance & Project Management.

Mr. Afshar stated ALL has seen improvement in the collection results in the last three months. He believes the collections have improved the portfolio, which in turn may allow for favorable pricing if the portfolio could be sold.

Mr. Gordon asked how much time would be allowed to find a buyer for the non-performing loans.

Mr. Washington stated that to sell the bonds, it would be a two-tier process. First, ALL would need to hire a consultant and receive a full analysis of the portfolio. The consultant would then go out and seek bids for buyers of the portfolio. The first tier of the process could take as long as six months.

Ms. Redway stated the consultant’s analysis would provide the Board with more information about the options for consideration.

Mr. Washington noted that once the consultant is hired, the cost and timeframe with which they would be seeking buyers could be negotiated.

Staff recommended that the Authority approve Resolution No. 2013-04 to authorize the execution of the Second Amendment to the Second Amended and Restated Administration Agreement that permits ALL to hire a consultant to review the Cal Loan portfolio for the possible sale of the loans.

Mr. Gordon moved for adoption of the Resolution and Ms. Lewis Daher seconded it. Motion adopted 5-0.

**Cal Loan Student Loan Program
Second Amendment to Resolution No. 2011-05**

Item # 7

Mr. Washington reported at the December 6, 2012 Authority meeting, the Authority approved an Amendment to Resolution No. 2011-05, reinstating the provisions of the Letter Amendment and extending the expiration date to December 5, 2013. The Letter Amendment, Exhibit A to the Amended Staff Report, authorized the Administrator, or its agents, to utilize the modified rehabilitation and

settlement loan provisions. Mr. Washington noted that the modified rehabilitation and settlement loan provisions were put in place for a limited period of time in order to evaluate their effectiveness. The modified rehabilitation and settlement loan provisions have generated increased collection results. Mr. Washington stated that staff requested the Authority approve the reinstatement of Sections 7(F) and 7(G) of the Second Amended and Restated Administration Agreement, to operate until the date the Administration Agreement shall terminate.

Representing ALL Student Loan: Andre Afshar, Managing Director and Dawn Smith, Director, Strategic Planning, Compliance & Project Management.

Staff recommended that the Authority approve the Second Amendment to Resolution No. 2011-05.

Mr. Gordon moved for adoption of the Resolution and Ms. Ortega seconded it. Motion adopted 5-0.

Item # 8 **Approval of the Tentative Meeting Schedule for 2014**

Mr. Washington stated that CEFA's regulations reflect that board meetings of the Authority will be held on the fourth Thursday of each month unless otherwise ordered by the Authority. Mr. Washington mentioned that it has been the practice of the Authority to meet on the last Thursday of each month. Because there are a few months each year that have five weeks, the Authority voted on a tentative meeting schedule in order to accommodate the longer months.

Staff recommended that the Authority approve the Tentative Meeting Schedule for Calendar Year 2014.

Mr. Gordon moved for adoption of the Tentative Meeting Schedule and Ms. Ortega seconded it. Motion adopted 5-0.

With no public comment, the CEFA meeting was adjourned at 1:31p.m.

Respectfully submitted,

Ronald L. Washington
Executive Director