CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

Bond Program Fee Restructure Review

Information Item

February 25, 2016

Executive Summary

Background: At the July 25, 2013 Authority meeting, staff recommended the Authority approve Resolution No. 2013-02 allowing the restructure of the Authority's Initial Fee and Annual Administrative Fee. Staff reported the fee restructure was appropriate due to increased operational and bond related costs since the original fee structure was put in place in 1997. Working closely with the Authority's financial advisor, Public Financial Management, Inc. ("PFM"), staff compared the Authority's fees against five other conduit financing authorities and concluded the change was necessary. PFM also 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. At that time, PFM projected that the CEFA Fund Balance would be depleted in 2021 if the Authority did not make changes to their fee structure.

The Authority approved updates to the Initial Fee and the Annual Administrative Fee in July 2013. Additionally, staff was directed to revisit the fee schedule in one year and annually thereafter to evaluate the impact of the changes. Given the relatively small number of issuances in 2014-2015, revisiting the revised fees was postponed until the 2016 calendar year.

While the initial changes in the fee structure would have improved the Authority's fund balance, staff continued to look for ways to remain competitive with other issuers and worked with PFM to further evaluate the Authority's fee structure. At the December 5, 2013 Authority meeting, Amendment to Resolution No. 2013-02 was approved allowing additional changes to the Authority's Fees. The following is a table representing the Authority's old and current fee structure:

Initial Fee

Old: 0.15% of the par amount (up to a maximum fee of $75,000)

New: 0.15% of the par amount up to $10mm, plus 0.05% of the par amount in excess of $10mm (up to a maximum fee of $75,000).

Application Fee

Old: $1,000 non-refundable fee submitted with the application

New: $1,000 non-refundable fee submitted with the application to be credited to the closing fee.

Annual Administrative Fee

Old: $500 annually for the first five years the debt is outstanding, $250 annually thereafter.

New: 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).

Discussion: Fee income represents the primary source of the Authority's revenues and the CEFA Fund should be maintained at an amount sufficient to cover normal and extraordinary costs of operation of the Authority. An overview of the revenues and expenses of CEFA for the past three years to date is shown in the table below:

	As of December 2015	As of June 30, 2015	As of June 30, 2014	As of June 30, 2013
Fee Income	$ 284,480	$ 270,560	$ 157,990	$ 457,688
SMIF Income	1,707	6,224	7,024	10,411
Total Income	**$ 286,187**	**$ 276,784**	**$ 165,014**	**$ 468,099**
Operating Expenses	$ 535,938	$ 768,127	$ 761,345	$ 903,459
Net Income	**$ (249,750)**	**$ (491,343)**	**$ (596,331)**	**$ (435,361)**
Fund Balance	$ 1,925,936	$ 2,175,658	$ 2,667,030	$ 3,263,361
# of Bond financings (Fiscal Year)	7	6	3	10
Bonds Issued (Par Amount)	$ 515,910,000	$ 212,210,000	$ 439,595,000	$ 529,744,000

The above table illustrates CEFA's shortfalls in net income over the past three years to date, highlighting the significant decline of the CEFA Fund Balance of approximately 41% since FY 2013. Although CEFA has focused its efforts to reduce general expenditures and has modified its fee structure, operating expenses continue to exceed revenues primarily due largely to decreases in fee income and SMIF income coupled with increased costs in external contracts, interagency agreements. The loss of fee income can be attributed to transactions issued at below-average par amounts and the refunding of existing CEFA series through other issuing authorities. Since the restructuring of the fees in July and December 2013, 13 Initial/Application fees have been applied, generating a modest increase to the Annual Administrative Fees, but going forward, the Annual Administrative Fee will provide a substantial part of CEFA's operating income as new bond financings fall under the new fee structure.

In response to the annual review of the Authority's fee structure, staff asked PFM to revisit their initial projections of revenues, expenditures and the analysis of the CEFA Fund Balance. As outlined in the following graphs, PFM reports that the results of their review show the restructured fee schedule has not significantly changed the outlook of CEFA's Fund Balance. (Graphs provided by PFM).

Graph 1 – Revenues and Expenditures - summarizes total fees from the old fee structure (purple lines) to the current fee structure (green lines) versus CEFA's operating costs. To project future fees, PFM assumed CEFA would issue approximately $390 million in bonds annually, based on CEFA's six-year bond issuance average. The graph shows that CEFA's fee income will increase and grow over time, while under the old fee structure the fee income is stagnant. It also indicates fee income will never catch up to operating costs.

Graph 2 – Fund Balance Projections (3.5% Operating Growth) - summarizes expenditures and revenues versus CEFA's fund balance. While the change in fee structure has addressed the Authority's ability to remain competitive, the change has not significantly impacted CEFA's fund balance as increased operating costs continue to outweigh revenues. Assuming a conservative annual operating cost growth of 3.5%, the CEFA Fund Balance will continue to decline until it will be depleted in 2022. Under this growth model, CEFA will remain unable to generate surplus income levels.

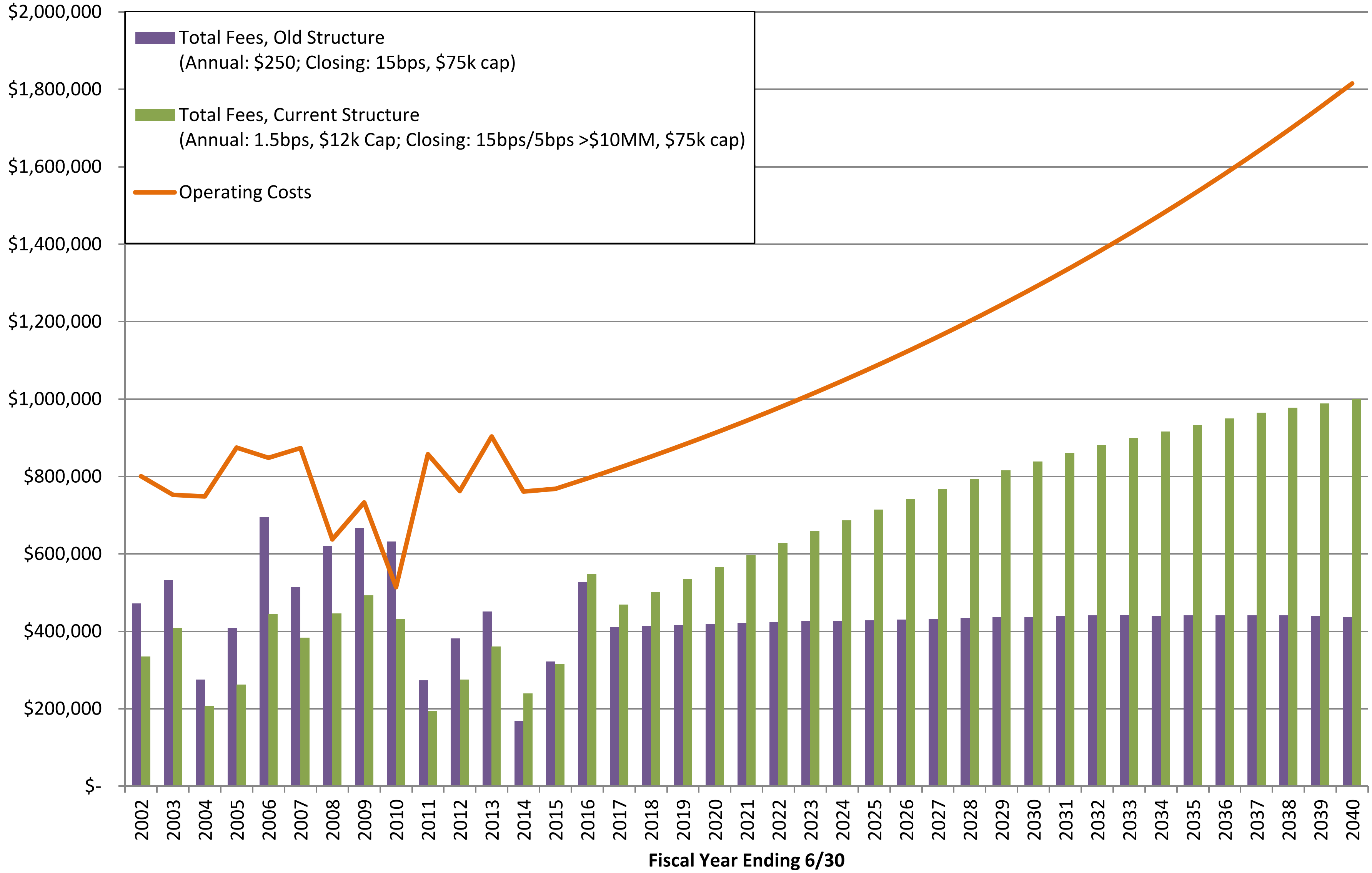
Graph 3 – Fund Balance Projections (0.0% Operating Growth - since 2002, CEFA's actual operating costs have not risen substantially (approximately 0.01% annual growth on average). Graph 3 reflects a scenario in which CEFA has 0% annual operating cost growth. This graph reflects future projections of the Fund Balance falling to a minimum of approximately $370,000 in 2027 before reversing course and growing steadily thereafter.

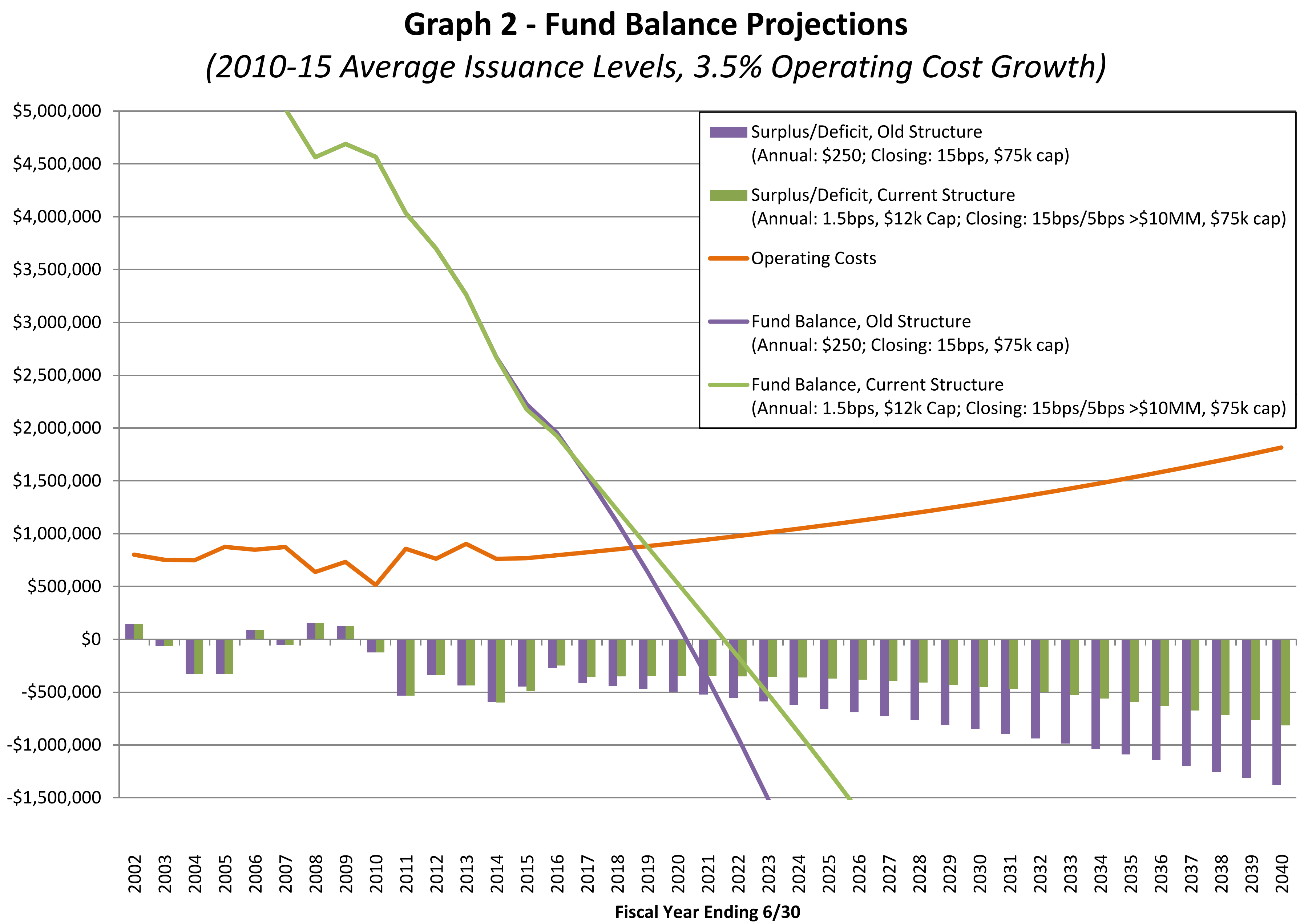
Graph 4 – Annual Trends - CEFA continues to have strong bond issuance years with fiscal year 2015/16 already exceeding over $500 million in bond issuance. Going forward, these bond issuances will be reflected in increased Annual Administrative Fees. A full picture of CEFA's revenues and expenditure is provided in Graph 4 reflecting annual trends since fiscal year 2002.

CEFA will continue its efforts to increase sources of revenue and maintain and reduce general expenditures where possible and will revisit the fee schedule in one year and annually thereafter to evaluate the impact of the changes.

Graph 1 - Revenues and Expenditures

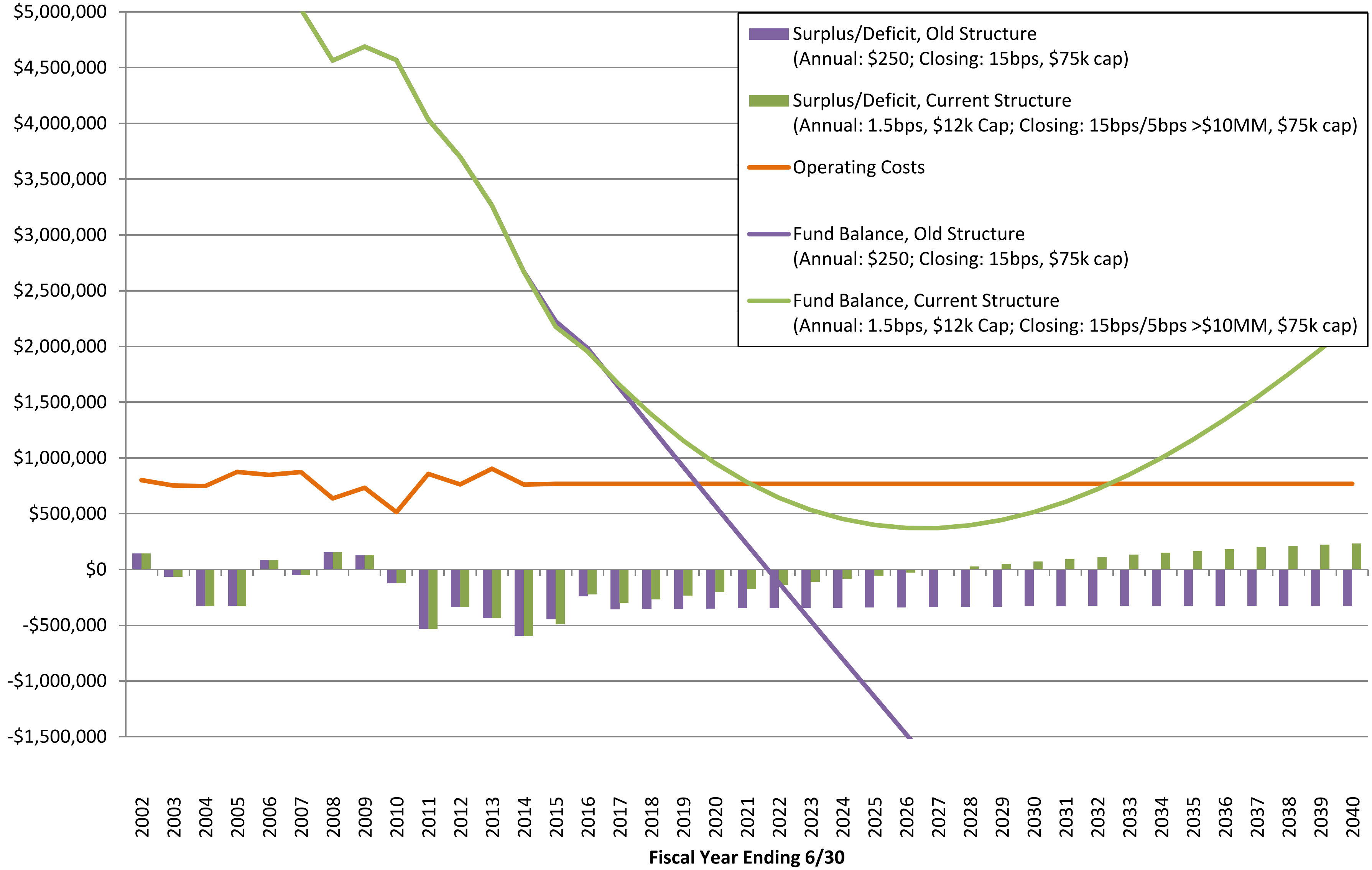
(2010-15 Average Issuance Levels, 3.5% Operating Cost Growth)

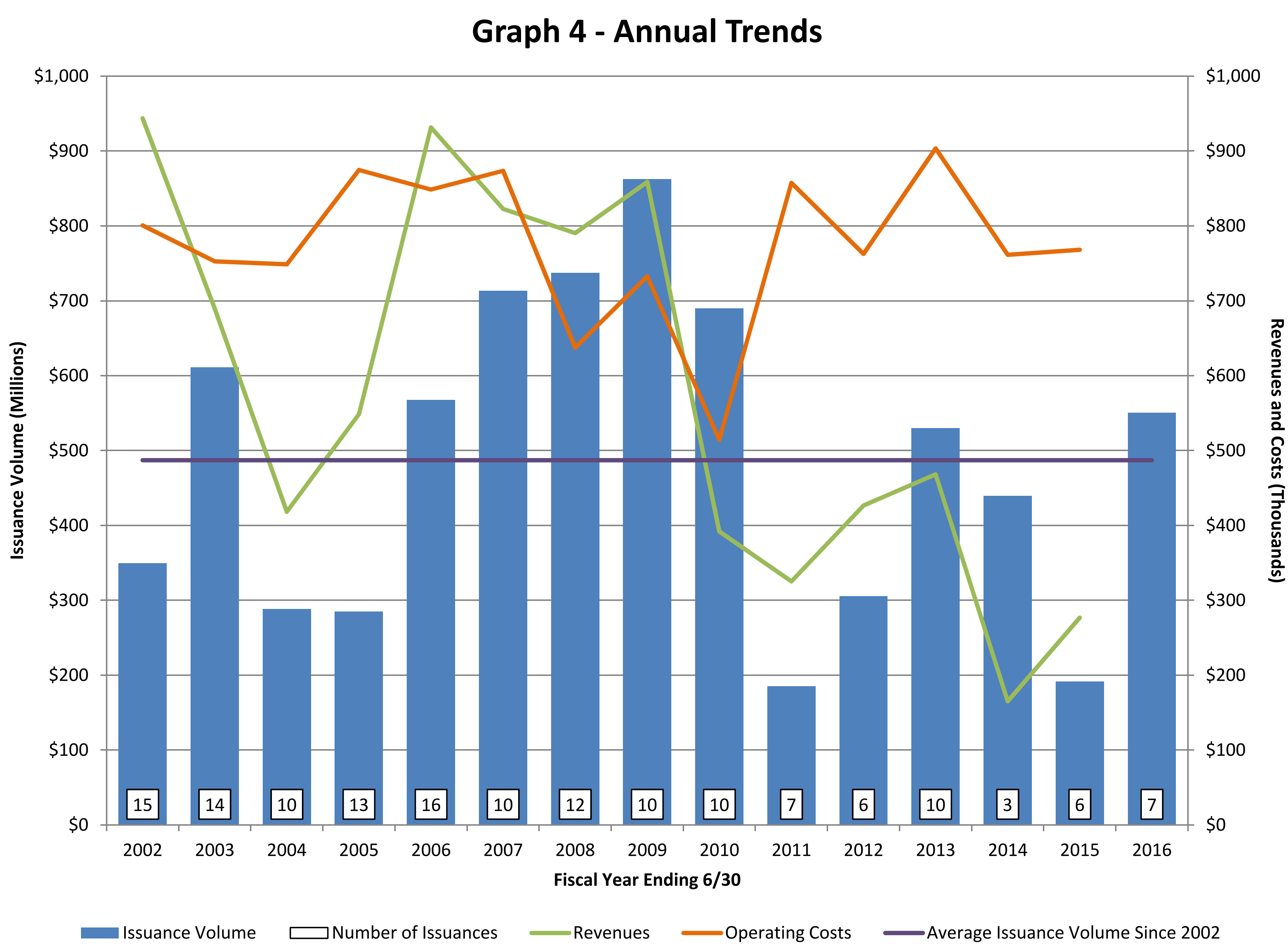



Graph 2 - Fund Balance Projections
(2010-15 Average Issuance Levels, 3.5% Operating Cost Growth)
$5,000,000
$4,500,000
$4,000,000
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
-$500,000
-$1,000,000
-$1,500,000
Surplus/Deficit, Old Structure
(Annual: $250; Closing: 15bps, $75k cap)
Surplus/Deficit, Current Structure
(Annual: 1.5bps, $12k Cap; Closing: 15bps/5bps >$10MM, $75k cap)
Operating Costs
Fund Balance, Old Structure
(Annual: $250; Closing: 15bps, $75k cap)
Fund Balance, Current Structure
(Annual: 1.5bps, $12k Cap; Closing: 15bps/5bps >$10MM, $75k cap)
2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032 2033 2034 2035 2036 2037 2038 2039 2040
Fiscal Year Ending 6/30

Graph 3 - Fund Balance Projections

(2010-15 Average Issuance Levels, 0% Operating Cost Growth)




Graph 4 - Annual Trends
Issuance Volume (Millions)
Revenues and Costs (Thousands)
$0
$100
$200
$300
$400
$500
$600
$700
$800
$900
$1,000
15
14
10
13
16
10
12
10
10
7
6
10
3
6
7
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
Fiscal Year Ending 6/30
Issuance Volume
Number of Issuances
Revenues
Operating Costs
Average Issuance Volume Since 2002