

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**Proposal to Reduce Authority Annual Administrative Fee**  
**January 25, 2007**

**Background:** Staff is proposing a cap on the annual .02% administrative fee for outstanding bond debt exceeding \$750 million. The maximum annual administrative fee would be capped at \$150,000.

**Other Health Care Issuers:** The California Statewide Community Development Authority (CSCDA) and the Association of Bay Area Governments (ABAG) are California Health Facilities Financing Authority's (CHFFA) two competing health care issuers. Both of these organizations reduce their fees under certain circumstances.

The attached chart is a detailed comparison of the current complete fee schedules of CHFFA and its main competitors (see Attachment A).

**Analysis:** Currently, only Catholic Healthcare West (CHW) would be directly affected by the proposed change to the fee schedule. Since administrative fees are assessed one year in arrears, our most recent large borrower, Stanford Hospitals and Clinics (Stanford) will be affected when administrative fees are assessed in 2008. The three next largest borrowers, Kaiser Foundation Hospitals, Cedars-Sinai Medical Center, and Sutter Health would benefit from the reduced fee if they issue additional CHFFA debt. Potentially, the fee reduction could attract additional borrowers in need of large bond issues and aid CHFFA in remaining competitive with other healthcare issuers. If implemented, the maximum CHFFA annual administrative fee assessed to Borrowers would be \$150,000 or .02% of \$750 million.

The current CHFFA fees assessed cover expenses of staff time to analyze financing applications, review legal documents, and conduct the sale and closing of the issue. All fees are deposited in the CHFFA Fund and all expenses are paid from the Fund. Authority operations are sustained independently without money from the State General Fund.

The fund balances as of December 31<sup>st</sup> for the last three calendar years are as follows:

<u>Year</u>	<u>Balance</u>
2004	\$7,514,724
2005	\$7,866,519
2006	\$8,669,790

As shown above, CHFFA's fund balance has increased during the last three calendar years. Since a relatively small amount of Borrowers would qualify for the fee cap, CHFFA's operations would not be adversely affected by the proposed change in fee structure.

The annual administrative fee is assessed during the first quarter of each year based on the outstanding debt balance as of January 31<sup>st</sup> of the previous year. The chart below exhibits the outstanding balance of the five largest borrowers and the projected administrative fee, using the current fee structure.

<u>Name of Borrower</u>	<u>CHFFA Bonds Outstanding as of January 31, 2007*</u>	<u>Projected Amount of Administrative Fee</u>
1. Catholic Healthcare West (CHW)	\$ 1,749,515,000	\$ 349,903
2. Stanford Hospital and Clinics (Stanford)	\$ 845,585,000	\$ 169,117
3. Kaiser Foundation Hospitals	\$ 713,236,766	\$ 142,647
4. Cedars-Sinai Medical Center	\$ 681,005,000	\$ 136,201
5. Sutter Health	\$ 581,152,518	\$ 116,230

\*Most recent outstanding bond balances were used to estimate January 31, 2007 balances. Fees were calculated at .02%, actual administrative fees may vary slightly due to pooled financings and small facility fee discounts.

As shown above, CHW and Stanford would receive an immediate reduction to their annual fee from \$349,903 and \$169,117 to \$150,000 respectively. Other borrowers would realize fee savings on subsequent CHFFA bond issues once their cumulative outstanding debt balance exceeds \$750 million.

**Conclusion:** By implementing a cap on the annual administrative fee, CHFFA will be adapting to the standard of tiered fees and remaining competitive with other tax-exempt healthcare issuers. Since the fee reduction would apply to only outstanding debt balances in excess of \$750 million, CHFFA could attract borrowers with large bond issues.

**Recommendation:** Staff recommends the Authority approve the revision to the fee schedule to cap the annual administrative fee at \$150,000 for borrowers that have more than \$750 million in outstanding CHFFA debt.

## ATTACHMENT A

### HEALTHCARE BOND FINANCING AUTHORITIES

#### Comparison of Fees (2006 Calendar Year)

	<b>California Health Facilities Financing Authority (CHFFA)</b>	<b>California Statewide Community Development Authority (CSCDA)</b>	<b>Association of Bay Area Governments (ABAG)</b>
<b>Application Fee<sup>1</sup></b>	\$500	\$5,000	\$1000
<b>Bond Issuance Fee</b>	.075% of aggregate amount of issue up to maximum of \$400 million (\$300,000 maximum fee)	<u>Up to \$20 M</u> .20% (Min \$15,000)  <u>Over \$20 M</u> \$40,000 + .05% over \$20 M	Credit Enhanced .05%  Investment Grade-Rated but not Credit Enhanced .10%  Non-rated .15%  (minimum \$5,000 fee and \$25,000 maximum for applicable category)
<b>Annual Fee  (Proposed Fee in Bold)</b>	.02% <sup>2</sup>  <b>.02% of annual outstanding principal<sup>2</sup> amount up to \$750 Million (\$150,000 maximum fee)</b>	<u>Up to \$100M<sup>3</sup></u> .03%  <u>Over \$100 M Up to \$1.0 B<sup>3</sup></u> .02%  <u>Over \$1.0 B<sup>3</sup></u> .015%	Credit Enhanced and Investment Grade-Rated Not Credit Enhanced: .02%  Non-rated: .05%

1. Non-refundable, but deducted from total issue costs in successful closing.
2. Based on outstanding CHFFA principal balance January 31 of the previous year.
3. Annual Administrative Fee assessed against aggregate bond issuance amount per borrower, not including prior bond issuance refinancing.