

STAFF SUMMARY RE CHFFA/CEFA INVESTMENT GRADE PUBLIC OFFERED BOND GUIDELINE CONSIDERATION

September 30, 2010

Short Summary

The attached resolution and appendices thereto comprise staff's recommendation for a new review process for investment grade public offerings. The resolution recites the essential history to the development of the process, as well as the specific elements of the process staff will follow from inception to conclusion when analyzing a revenue bond transaction.

Background

The Authorities established the written bond-issuance guidelines attached as Exhibit A to the resolution in 2000. Since their inception, borrowers have occasionally requested and been granted various exceptions to the guidelines. Coinciding with the auction, variable rate and insurer challenges over the course of the last 24 months, top borrowers from both Authorities have increasingly asked for exceptions to the guidelines.

Given the increasing number of requests for exceptions to the guidelines and the near decade of time that had passed since the guidelines were originally implemented, staff from both Authorities formed a working group to carefully consider whether any amendments to the guidelines might be merited. The working group was composed of representatives from the following: (1) both Authorities' rank and file, (2) counsel routinely serving as bond counsel to the Authority, (3) counsel from the Treasurer's office, (4) counsel from the Attorney General's Office, (5) the Authorities' financial advisor, Public Financial Management, and (6) the State Treasurer's Office Public Financial Division.

Members of the working group engaged in a variety of activities to help evaluate the guidelines. Staff talked with and reviewed the policies of other statewide, as well as other national conduit issuers to get a sense of what other conduit issuers are doing. Staff developed mission statements for both Authorities to help tether the evaluation of the guidelines around the key tenets of the organizations. Staff also researched and identified the most recent ratings for the top borrowers of each Authority. The Attorney General's office reviewed the legislative history behind both organizations, the statutes in place for both Authorities and specifically, the statutes spelling out the requirements for both Authorities whenever an application for bond approval is submitted to the Authorities. Representatives from Public Financial Management researched statewide and national default rates for healthcare transactions and provided the knowledge needed to more clearly understand the various credit ratings assigned by rating agencies and how these ratings are construed by the market. Bond counsel helped the working group to identify the business and legal risks faced by conduit bond issuers, as well as how conduit bond issuers might best mitigate these risks through appropriate disclosures, covenants, representations and indemnities.

Grounded to the Authorities, respective missions to provide ready access to capital for their borrowers, the working group has worked to balance the mission against the need to minimize various risks to each Authority, including legal, financial and reputational risks. Considering the unprecedented market conditions of the past few years, the working group recognizes that further changes that cannot be predicted are inevitable.

Proposed New Process for Investment Grade Rated Transactions

Bond issuance guidelines for both Authorities are currently prescriptive; various covenants and security measures are required. If a borrower does not completely meet the requirements, a formal exception is required. To avoid the challenge with distinguishing factual circumstances that might qualify for an exception (or not) and to respond to the changes in the market over the last decade, the working group focused on developing a system of staff diligence and investigation in reviewing what each finance team puts together as an appropriate credit package. The new process brings flexibility to the table and the working group believes will likely be more responsive to future market conditions than the previous “yes/no” style inherent to the prescriptive guidelines.

The required rating threshold has been modified to mirror the market distinction between Investment Grade and Non-Investment Grade securities. The working group duly considered the presentations from Brad Spielman of Moody’s Investors Service and John Bonow of Public Financial Management which reflected their research of past transactions nationwide indicating that adjusting CHFFA’s prior cut-off for additional sale restrictions below BBB+ to the new public offering requirement for all ratings above BBB- does not raise the risk of default. The working group also acknowledged a seemingly arbitrary difference between CEFA and CHFFA in that CEFA has a cut-off at the BBB level rather than CHFFA’s BBB+. The working group placed priority on having consistent demarcations based on objective criteria.

Accordingly, the attached resolution memorializes the review process staff recommends for all future CEFA and CHFFA publicly offered investment grade rated bond transactions.

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

While all projects must demonstrate financial feasibility, these guidelines describe what CHFFA would expect to see given a transaction (or borrower) with a particular rating (or no rating). The Authority would reserve the right to use its discretion as necessary and appropriate. The Authority acknowledges that each financing must be reviewed individually and exceptions to these guidelines may be considered if the applicant demonstrates that such exception is a necessary part of a cost-effective and prudent borrowing strategy. Conversely, the Authority retains the flexibility to request additional provisions as circumstances warrant. Appendix A provides a written summary of these guidelines.

BOND RATING (1)	LOAN SECURITY PROVISIONS	BOND COVENANTS
I. A-/A-/A3 or Better Rated Debt (public offering)	<ul style="list-style-type: none"> • Unconditional Promise to Pay • Gross Revenue Pledge • For systems, an obligated group structure – joint and several obligation is preferred. Will consider corporate style structures for stronger rated systems on a case-by-basis. 	<p><u>Reporting Covenants:</u></p> <ul style="list-style-type: none"> • Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants • Submission of required Arbitrage Reports to Authority • Annual Audited Financial Statements • Quarterly submission of unaudited financials, if requested <p><u>Financial Covenants:</u> (See Financial Covenants below)</p>
II. BBB+/BBB+/Baa1 (public offering)	<ul style="list-style-type: none"> • Unconditional Promise to Pay • Gross Revenue Pledge • For systems, must use an obligated group structure – joint and several obligation • Debt Service Reserve Account funded to the maximum amount permitted by federal tax law for such series (currently, the least of 10% of principal amount of bonds, maximum annual debt service or 125% of average annual debt service). Must be funded at all times with internal cash, bond proceeds, or qualifying letter of credit or surety bond • Minimum denominations of \$100,000 • Bonds cannot be split by selling participatory shares 	<p><u>Legal Covenant:</u></p> <ul style="list-style-type: none"> ◆ Must comply with Section 15438.5 (c) of the Government Code <p><u>Reporting Covenants:</u></p> <ul style="list-style-type: none"> • Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants of bond documents • Submission of required Arbitrage Reports to Authority • Annual Audited Financial Statements • Submit quarterly unaudited financials, if requested <p><u>Financial Covenants:</u></p> <ul style="list-style-type: none"> • Maintain appropriate rates and charges to maintain a minimum coverage ratio of at least 1.25 times maximum annual debt service • Must submit annual reports that show that the coverage is being met, per certification of the financial officer • If the coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions • Must maintain minimum 1.25 coverage to take on additional debt <p><u>Other Covenants:</u></p> <ul style="list-style-type: none"> • Other covenants as appropriate
III. Less than BBB+/BBB+/Baa1 or Unrated Debt	<ul style="list-style-type: none"> • Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933 • Minimum denomination of \$250,000 <hr/> <ul style="list-style-type: none"> • Unconditional Promise to Pay • Gross Revenue Pledge • Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond) • Bonds cannot be split by selling participatory shares 	<p><u>Other Covenants:</u></p> <ul style="list-style-type: none"> • Other covenants as appropriate
BORROWER RATING (1)	LOAN SECURITY PROVISIONS	BOND COVENANTS
IV. Unrated Debt for Equipment Program (for equipment purchases generally \$5 million or less) Private placements for <u>health facilities</u> with current debt ratings of BBB+/BBB+/Baa1 or higher (generally reserved for smaller transactions)	<ul style="list-style-type: none"> • Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933 • Minimum denomination of \$100,000 • Bonds cannot be split by selling participatory shares 	<p><u>Legal Covenant:</u></p> <ul style="list-style-type: none"> ◆ Must comply with Section 15438.5 (c) of the Government Code <p><u>Reporting Covenants:</u></p> <ul style="list-style-type: none"> • Annual submission of Certificate of Compliance with CHFFA Statute, financial and other covenants • Submission of required Arbitrage Reports to Authority • Annual Audited Financial Statements • Submit quarterly unaudited financials, if requested

(1) Refers to rating categories used by Standard & Poor’s/Fitch/Moody’s.

Appendix A

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

The Authority will generally require the following security provisions and bond covenants given a transaction with a particular rating (or no rating), as specified below, and reserves the right to use its discretion as necessary and appropriate. Each proposed financing will be reviewed individually and exceptions to these guidelines may be considered if the applicant demonstrates that such an exception is a necessary part of a cost-effective and prudent borrowing strategy: At the same time, the Authority reserves the right to request additional provisions as circumstances warrant.

The ratings shown are the respective categories of Standard & Poor's, Fitch and Moody's.

I. A-/A-/A3 or Better Rated Debt (public offering or private placement)

1. Loan Security Provisions:

- a. Unconditional Promise to Pay
- b. Gross Revenue Pledge
- c. For systems, an obligated group structure – joint and several obligation is preferred. Will consider corporate style structure for stronger rated systems on a case-by-basis

2. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants.
- b. Submission of required Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Must submit quarterly unaudited financials, if requested

3. Financial Covenants:

- a. Maintain appropriate rates and charges to maintain a minimum debt service coverage ratio of at least 1.25 times maximum annual debt service
- b. Must submit annual reports that show that the debt service coverage is being met, per certification of the financial officer
- c. If the debt service coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions
- d. Must maintain minimum 1.25 debt service coverage to take on additional debt

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

II. BBB+/BBB+/Baa1 (public offering)

1. Loan Security Provisions:

- a. Unconditional Promise to Pay
- b. Gross Revenue Pledge
- c. For systems, must use an obligated group structure – joint and several obligation
- d. Debt Service Reserve Account funded to the maximum amount permitted by federal tax law for such series (currently, the least of 10% of principal amount of bonds, maximum annual debt service or 125% of average annual debt service). Must be funded at all times with internal cash, bond proceeds, or qualifying letter of credit or surety bond .
- e. Minimum denominations of \$100,000
- f. Bonds cannot be split by selling participatory shares:
 - (i) The offering material/disclosure document shall prominently indicate on the cover that shares of individual bonds may not be sold to other investors
 - (ii) The face of each bond shall contain a legend stating to the effect that shares of such bonds not be sold to other investors
 - (iii) The bond documents shall contain provisions that restrict the ability of shares of bonds to be sold to other investors

2. Legal Covenant: Must comply with Section 15438.5 (c) of the Government Code

3. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants.
- b. Submission of required Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Must submit quarterly unaudited financials, if requested

4. Financial Covenants:

- a. Maintain appropriate rates and charges to maintain a minimum debt service coverage ratio of at least 1.25 times maximum annual debt service
- b. Must submit annual reports that show that the debt service coverage is being met, per certification of the financial officer
- c. If the debt service coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions
- d. Must maintain minimum 1.25 debt service coverage to take on additional debt

5. Other covenants as appropriate, the specific terms of which would be at the discretion of the Authority and the credit enhancer, if credit enhancement is utilized.

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

III. Less than BBB+/BBB+/Baa1 Rated Debt or Unrated Debt

1. Loan Security Provisions:

- a. Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933
- b. Minimum denomination of \$250,000
- c. Unconditional Promise to Pay
- d. Gross Revenue Pledge
- e. Debt Service Reserve Account (must be funded at all times with internal cash, bond proceeds, letter of credit or surety bond)
- f. Bonds cannot be split by selling participatory shares:
 - (i) The offering material/disclosure document shall prominently indicate on the cover that shares of individual bonds may not be sold to other investors
 - (ii) The face of each bond shall contain a legend stating to the effect that shares of such bonds not be sold to other investors
 - (iii) The bond documents shall contain provisions that restrict the ability of shares of bonds to be sold to other investors

2. Legal Covenant: Must comply with Section 15438.5 (c) of the Government Code

3. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants.
- b. Submission of required Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Must submit quarterly unaudited financials, if requested

4. Financial Covenants:

- a. Maintain appropriate rates and charges to maintain a minimum debt service coverage ratio of at least 1.25 times maximum annual debt service
- b. Must submit annual reports that show that the debt service coverage is being met, per certification of the financial officer
- c. If the debt service coverage falls below the minimum ratio, must engage a management consultant which shall report its recommendations for corrective actions
- d. Must maintain minimum 1.25 debt service coverage to take on additional debt

5. Other covenants as appropriate, the specific terms of which would be at the discretion of the Authority and the credit enhancer, if credit enhancement is utilized.

CHFFA BOND ISSUANCE GUIDELINES PER BOND RATING CATEGORY

IV. Unrated debt for Equipment Program (for equipment purchases generally \$5 million or less) or Private placements for health facilities with current debt ratings of BBB+/BBB+/Baa1 or higher (generally reserved for smaller transactions)

The guidelines in sections “I” through “III” are based on the rating of the bonds to be issued. However, this is a special category where the guidelines relate to the type of transaction. The Authority will give special consideration to *small equipment private placements* and to *health facilities with current debt ratings of BBB+/BBB+/Baa1 or higher* that want to privately place their bond offerings. For these particular types of transactions, the loan security provisions and bond covenants are streamlined as outlined below.

1. Loan Security Provisions:

- a. Must be privately placed (in both primary and secondary markets), with appropriate disclosure, with a “Qualified Institutional Buyer” as defined by SEC Rule 144A, promulgated under the Securities Act of 1933
- b. Minimum denomination of \$100,000
- c. Bonds cannot be split by selling participatory shares:
 - (i) The offering material/disclosure document shall prominently indicate on the cover that shares of individual bonds may not be sold to other investors
 - (ii) The face of each bond shall contain a legend stating to the effect that shares of such bonds not be sold to other investors
 - (iii) The bond documents shall contain provisions that restrict the ability of shares of bonds to be sold to other investors

2. Legal Covenant: Must comply with Section 15438.5 (c) of the Government Code

3. Reporting Covenants:

- a. Annual submission of Certificate of Compliance with CHFFA Statute, Continuing Disclosure (if applicable), financial and other covenants.
- b. Submission of required Arbitrage Reports to Authority
- c. Annual Audited Financial Statements
- d. Must submit quarterly unaudited financials, if requested

Exhibit B

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY INVESTMENT GRADE PUBLIC OFFERINGS

Revenue Bond Application Review Process

I. INVESTMENT GRADE RATING REQUIRED

- (A) Borrower must obtain an Investment Grade Rating from at least 1 nationally recognized rating agency on bonds to be issued; BBB-/BBB-/Baa3 or better from S&P/Fitch/Moody's
- (B) For Variable Rate Bonds that may be Converted to Fixed Rate Bonds without further CHFFA action, Indenture provisions shall require confirmation prior to the Conversion that an Investment Grade Rating will apply to the bonds following Conversion
- (C) If proposed bonds have more than one rating, the highest rating shall be used to determine compliance except when one of the ratings falls below BBB-/BBB-/Baa3, regardless of the higher rating CHFFA will not treat the requested bonds as having an Investment Grade Rating

II. CHFFA STAFF EVALUATION PROCESS

- (A) Staff Diligence Pursuant to § 15437(b) (link)
- (B) Work Compiled in Staff Report
 - (1) Sample Staff Report Form (link)
 - (2) Draft Report will be provided to Borrower, UW, BC, CHFFA's Financial Analyst and AG for review and comment
 - (3) Final Report Sent to Authority Members 7 Days Prior to Meeting
 - (4) Deference to Cal Mortgage Loan Committee credit review process
- (C) Staff Makes Recommendation but Authority retains discretion

III. CONSIDERATION OF COVENANTS AND SECURITY FOR BONDHOLDERS

- (A) Borrower and CHFFA Analyst to compile list of key provisions; CHFFA does NOT require particular covenants
- (B) Clarify which entities' finances secure repayment of CHFFA loan, e.g. single Borrower corporation, Obligated Group, Guarantors

- (C) Sample Covenants/Security (#1 is required; ## 2-4 are strongly preferred; remaining ones are examples of what is often seen in various financings depending on credit strength and market conditions)
- (1) Unconditional Promise to Pay
 - (2) Gross Revenue or Gross Receivables Pledge
 - (3) Negative Pledge Against Prior Liens
 - (4) Limited Permitted Encumbrances
 - (5) Debt Service Reserve Fund
 - (a) Would one be funded with bond proceeds or equity
 - (b) If it is a springing funding requirement, what is the trigger
 - (c) How is the reserve requirement sized
 - (d) Is a surety or letter of credit permitted in lieu of a cash deposit
 - (e) Are there circumstances where all moneys in the reserve may be released
 - (6) Debt Service Coverage Requirement
 - (a) Maximum Annual Debt Service or Annual Debt Service to be covered; what is the required ratio; how low can it be before default?
 - (b) Is a Consultant review required if the ratio falls below a threshold?
 - (c) Steps and Timing Before Event of Default
 - (7) Additional Debt Limitation
 - (8) Disposition of Cash and Property Limitations
 - (9) Cash or Liquidity Requirements
 - (10) Debt to Capitalization Requirement
 - (11) Security Interest in Designated Property
 - (12) Mortgage or Deed of Trust
 - (13) Other

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY INVESTMENT GRADE PUBLIC OFFERINGS

Revenue Bond Application Resources and Review Process

OUTLINE

- I. CHFFA MISSION STATEMENT (link)
- II. CHFFA COMMITMENT TO “CUSTOMER” SERVICE
- III. CHFFA ACT (link)
 - (A) Qualifying Borrowers; Definition of “Participating Health Institution” (link)
 - (B) Qualifying Projects; Definitions of “Project,” “Cost,” and “Health Facility” (link)
 - (C) Savings Pass-Through Requirement (link to § 15438.5 and CHFFA policy)
 - (D) Community Service Assurance; Access Requirements (link to §§ 15459 through 15459.4)
 - (E) Financed Projects must comply with CEQA (link to § 15455 and required documentation)
 - (F) State Treasurer (STO) acts as agent for sale for CHFFA (link)
- IV. CHFFA MEETINGS/HEARINGS/AGENDA REQUIREMENTS
 - (A) Transactions are set for hearings and approvals after receipt of an application (see Article VI below)
 - (B) Regular Meeting Schedule is typically the last Thursday of every month at approximately 1:30 pm at CHFFA offices in Sacramento (link)
 - (C) Special Meetings are possible in extraordinary circumstances
 - (D) Agenda Deadlines (CHFFA must distribute each meeting agenda at least 10 days in advance of meetings unless there is an extraordinary situation meeting legal requirements for shorter notice; link to public meeting law)
 - (E) TEFRA Hearing Arrangements
 - (1) A single public hearing covers projects throughout the State

- (2) CHFFA's custom is to hold hearings at its offices on the Wednesday preceding each regular monthly meeting at 10:00 a.m.; Borrowers are not required to attend; alternative days and times available upon request
- (3) Bond Counsel arranges publication of hearing notices and provides affidavits of publication to CHFFA at least 2 business days prior to the hearing
- (4) STO provides issuer approval certificate within 10 days after hearing (link to model certification language)
- (F) Single Meeting Approval via Resolution (link to model resolution)

V. SELECTION OF FINANCE TEAM

- (A) Underwriter(s) may be designated by Borrower from STO approved Underwriter Pool (link)
- (B) Borrower selects its own Counsel
- (C) Borrower may select Bond Counsel with CHFFA consent
- (D) CHFFA represented by Attorney General's (AG) Office or a designated outside attorney, acting as issuer counsel
- (E) CHFFA Financial Advisor is PFM
- (F) STO is Agent for Sale (following approval, pricing and bond sale are to be coordinated through CHFFA with STO)
- (G) Trustee/Paying Agent May Be Selected by Borrower with CHFFA consent
- (H) CHFFA will designate an Analyst for each Financing as Primary Contact
- (I) CHFFA Analyst will Provide contacts for CHFFA/STO/AG participants
- (J) Credit or Liquidity Enhancer Identified by Borrower

VI. APPLICATION SUBMISSION

- (A) Staff Assistance Available Prior to Formal Application
 - (1) Discuss Project/Borrower Eligibility
 - (2) Consideration of Corporation or Obligated Group as an appropriate Applicant and Borrower
 - (3) Resources for Municipal Borrowing Information (links to STO resources; CDIAC Primer and materials gathered by CHFFA)

- (B) On-Line Application Form ([link](#))
- (C) Timing – Due by 1st business day of month in which approval is sought
- (D) Application Fee ([link](#)); Issuance Fee Information ([link](#))
- (E) Borrower Documents Requested with Application
 - (1) Latest Audited Financial Statements
 - (2) Latest Unaudited Financial Information
 - (3) Previous Official Statement (if any)
 - (4) Evidence of CEQA Compliance or Exemption
 - (5) Draft of CHFFA Resolution
 - (6) Master Indenture or other document containing Borrower or Obligated Group existing covenants
 - (7) Latest Rating Agency Reports of Borrower or Obligated Group
- (F) Bond Documents
 - (1) Substantially Final Drafts Due No Later than 10th of the month in which approval is sought; further refinements of the documents may continue to be submitted to CHFFA staff
 - (2) Standard Provisions of CHFFA Loan Agreements and Indentures to be Used ([link](#))
 - (a) Recitals
 - (b) Representations
 - (c) Reporting Requirements
 - (d) Indemnification
 - (e) California Choice of Law
 - (f) Venue in Sacramento County
 - (g) CHFFA Named as “Additional Insured”
 - (h) Signature Block format

- (3) Community Service Assurance Form (link)
 - (a) Physician List
 - (b) Certification
 - (c) Annual Notices
- (4) Tax Agreement Provisions, including rebate reporting (link)
- (5) CHFFA Closing Certificate Forms (link)
- (G) Underwriting Documents
 - (1) Substantially final drafts due no later than 10th of the month in which approval is sought; further refinements of the documents may continue to be submitted to CHFFA staff
 - (2) Standard provisions of CHFFA Bond Purchase Agreement and Official Statement (link)
 - (a) CHFFA disclosure/disclaimers
 - (b) Required Legal Opinions
 - (i) Issuer Counsel
 - (ii) Bond Counsel (validity opinion and supplemental opinion including SEC Act § 10b(5) opinion)
 - (iii) Underwriters' Counsel
 - (iv) Borrower Counsel (must cover SEC § 10b(5) opinion on full OS with very limited exclusions)
 - (3) Authority 15c-2(12) Certificates (link to model and process and timing for obtaining from CHFFA)

VII. INVESTMENT GRADE RATING REQUIRED

- (A) Borrower must obtain an Investment Grade Rating from at least 1 nationally recognized rating agency on bonds to be issued; BBB-/BBB-/Baa3 or better from S&P/Fitch/Moody's
- (B) For Variable Rate Bonds that may be Converted to Fixed Rate Bonds without further CHFFA action, Indenture provisions shall require confirmation prior to the Conversion that an Investment Grade Rating will apply to the bonds following Conversion

- (C) If proposed bonds have more than one rating, the highest rating shall be used to determine compliance except when one of the ratings falls below BBB-/BBB-/Baa3, regardless of the higher rating CHFFA will not treat the requested bonds as having an Investment Grade Rating

VIII. CHFFA STAFF EVALUATION PROCESS

- (A) Staff Diligence Pursuant to § 15437(b) (link)
- (B) Work Compiled in Staff Report
 - (1) Sample Staff Report Form (link)
 - (2) Draft Report will be provided to Borrower, UW, BC, CHFFA's Financial Analyst and AG for review and comment
 - (3) Final Report Sent to Authority Members 7 Days Prior to Meeting
 - (4) Deference to Cal Mortgage Loan Committee credit review process
- (C) Staff Makes Recommendation but Authority retains discretion

IX. CONSIDERATION OF COVENANTS AND SECURITY FOR BONDHOLDERS

- (A) Borrower and CHFFA Analyst to compile list of key provisions; CHFFA does NOT require particular covenants
- (B) Clarify which entities' finances secure repayment of CHFFA loan, e.g. single Borrower corporation, Obligated Group, Guarantors
- (C) Sample Covenants/Security (#1 is required; ## 2-4 are strongly preferred; remaining ones are examples of what is often seen in various financings depending on credit strength and market conditions)
 - (1) Unconditional Promise to Pay
 - (2) Gross Revenue or Gross Receivables Pledge
 - (3) Negative Pledge Against Prior Liens
 - (4) Limited Permitted Encumbrances
 - (5) Debt Service Reserve Fund
 - (a) Would one be funded with bond proceeds or equity
 - (b) If it is a springing funding requirement, what is the trigger

- (c) How is the reserve requirement sized
 - (d) Is a surety or letter of credit permitted in lieu of a cash deposit
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- (6) Debt Service Coverage Requirement
- (a) Maximum Annual Debt Service or Annual Debt Service to be covered; what is the required ratio; how low can it be before default?
 - (b) Is a Consultant review required if the ratio falls below a threshold?
 - (c) Steps and Timing Before Event of Default
- (7) Additional Debt Limitation
- (8) Disposition of Cash and Property Limitations
- (9) Cash or Liquidity Requirements
- (10) Debt to Capitalization Requirement
- (11) Security Interest in Designated Property
- (12) Mortgage or Deed of Trust
- (13) Other

X. CONTINUING DISCLOSURE

- (A) Comply with SEC Rule 15c2-12
- (B) Authority Standard Provisions ([link](#))