

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Costs of Issuance

Agenda Item #10 -- Information Item

February 23, 2012

Costs of issuance are the expenses paid by or on behalf of the borrower in connection with the sale and issuance of bonds.

These expenses may include, but are not limited to, bond counsel fees, disclosure counsel fees, trustee fees, financial advisor fees, feasibility consultant fees, accounting fees, costs of printing the bonds, costs of printing the Official Statement or other disclosure documents, costs associated with obtaining a credit rating, and the underwriter's gross spread¹. For tax-exempt bonds, such as the Authority's, a portion of the costs of issuance can be paid from the bond proceeds.

Cost of Issuance Limit: According to IRS code section 147 (g), "A private activity bond shall not be a qualified bond if the issuance costs financed by the issue (of which such bond is a part) exceed two (2) percent of the proceeds of the issue." Any extra costs above the two percent limit must be paid by the borrower.

Common parties in bond issuance and their roles: In the bond issuance process, many parties engage in a variety of activities and assume various responsibilities. It should be noted that the presence of all or some of these actors is contingent upon the size and complexity of the issue and the recommendation and preference of the issuer and borrower.

- **CONDUIT ISSUER (CHFFA):** The entity that issues municipal securities to raise capital for revenue-generating projects where the funds generated are used by a third party (known as the "conduit borrower") to make payments to investors. The conduit financing is typically backed by either the conduit borrower's credit or funds pledged toward the project by outside investors. If a project fails and the security goes into default, the conduit borrower remains financially obligated and not the conduit issuer.
- **RATING AGENCY:** A company that provides investors with assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. A high rating indicates low risk and may therefore encourage investors to buy a security. Additionally, banks may only invest in securities with a high rating from two or more credit rating agencies. The Securities and Exchange Commission (SEC) recognizes 10 firms as credit rating agencies of which Fitch, S&P, and Moody's are the three most prominent. Their rating categories are described in the table below.

¹ Gross spread refers to the fees that underwriters receive for arranging and underwriting an offering of debt or equity securities.

Long Term Ratings			
Quality	Moody's	Standard & Poor's	Fitch
Best Quality	Aaa	AAA	AAA
High Quality	Aa1 Aa2 Aa3	AA+ AA AA-	AA+ AA AA-
Upper Medium Grade	A1 A2 A3	A+ A A-	A+ A A-
Medium Grade	Baa1 Baa2 Baa3	BBB+ BBB BBB-	BBB+ BBB BBB-

- UNDERWRITER:** A broker-dealer that purchases a new issue of municipal securities issued on behalf of the borrower for resale in a primary offering. The underwriter may acquire the securities either by negotiation with the borrower or by award on the basis of competitive bidding. In CHFFA bond transactions, the borrower selects the underwriter. However, for deals over \$100 million, we encourage the borrower to select co-underwriters.
- UNDERWRITER'S COUNSEL:** An attorney or law firm retained to represent the interests of an underwriter in connection with the purchase of a new issue of municipal securities. The duties of underwriter's counsel may include review of the issuer's bond resolution and documentation on behalf of the underwriter; review of the accuracy and adequacy of disclosure in the official statement; preparation of the agreement among underwriters, purchase contract and/or the official statement; assisting the underwriter in meeting the underwriter's due diligence obligation; and delivery of a due diligence opinion.
- BOND COUNSEL:** An attorney or law firm, typically retained by the borrower, to give a legal opinion that the issuer is authorized to issue proposed municipal securities, the issuer has met all legal requirements necessary for issuance and interest on the proposed securities (if they are intended to be tax-exempt bonds) will be excluded from gross income of the holders thereof for federal income tax purposes and, where applicable, from state and local taxation. Typically, bond counsel may prepare, or review and advise the issuer regarding, authorizing resolutions, trust indentures, official statements, validation proceedings and litigation.
- FINANCIAL ADVISOR:** With respect to a new issue of municipal securities, a consultant who advises the issuer on matters pertinent to the issue, such as bond structure, timing of issuance, marketing, fairness of pricing, bond terms and bond ratings. A financial advisor may also be employed to provide advice on subjects unrelated to a new issue of municipal securities, such as advising on cash flow and investment matters. The financial advisor is sometimes referred to as a "fiscal consultant" or "fiscal agent." A broker-dealer that acts as a financial advisor is subject

to Municipal Securities Rulemaking Board (MSRB) rules. Currently, CHFFA's financial advisor fees are not paid from costs of issuance. CHFFA pays the fees directly. However, the borrower's financial advisor's fees are paid from costs of issuance.

- **TRUSTEE:** A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the trust indenture. In many cases, the trustee also acts as paying agent, registrar and/or transfer agent for the bonds.
- **FEASIBILITY CONSULTANT:** Develops feasibility study – A report detailing the economic practicality of and the need for a proposed capital program. The consultant frequently analyzes demand for the product or service being sold and forecasts financial statements or other operating statistics. The feasibility study may include a user or other rate analysis to provide an estimate of revenues that will be generated for the purpose of substantiating that debt service can be met from pledged revenues. In addition, the feasibility study may provide details of the physical, operating, economic or engineering aspects of the proposed project, including estimates of construction costs, completion dates and drawdown schedules. A feasibility study is a requirement for Cal-Mortgage insured bonds but not for CHFFA.
- **DISCLOSURE COUNSEL:** An attorney or law firm retained by the borrower to provide advice on issuer disclosure obligations and to prepare the official statement and continuing disclosure agreement after the close of escrow. Typically, the underwriter's counsel will serve as disclosure counsel in most transactions. However, CHFFA engages a disclosure counsel for the Cal-Mortgage insured transactions.
- **SPECIAL TAX COUNSEL:** A lawyer or law firm employed to give an opinion that the interest on tax-exempt bonds qualifies for exclusion from gross income of the holders thereof for federal income tax purposes. Special tax counsel customarily does not give an opinion as to the validity of the tax-exempt bonds but relies on the opinion of bond counsel on such matters. Special tax counsel is often utilized when bond counsel is unable or unwilling to give an opinion as to the tax-exempt status of the bonds.
- **REGISTRAR:** The person or entity responsible for maintaining records on behalf of the issuer that identify the owners of a registered bond issue. The trustee under a trust indenture often also acts as registrar.
- **PAYING AGENT:** The entity responsible for transmitting payments of interest and principal from an issuer of municipal securities to the security holders. The paying agent is usually a bank or trust company, but may be the treasurer or some other officer of the issuer (although not in the case of CHFFA.) The paying agent may also provide other services for the issuer such as reconciliation of the securities and interest paid, destruction of paid securities, and similar services. The trustee under a trust indenture often also acts as paying agent.

- **ESCROW AGENT:** Manages escrow account – A fund established to hold moneys pledged and to be used solely for a designated purpose, typically to pay debt service on an outstanding issue in an advance refunding.
- **VERIFICATION AGENT:** Creates verification report - a refunding, a report, prepared by a certified public accountant or other independent third party that demonstrates that the cash flow from investments purchased with the proceeds of the refunding bonds and other moneys are sufficient to pay the principal of and interest on the refunded bonds that are being defeased.

The attached report shows the cost of issuance per transaction and the total cost of issuance for all of the CHFFA tax-exempt bond transactions for calendar year 2011.

California Health Facilities Financing Authority
Bond Financing Program

Cost of Issuance for CY 2011 -- Transactions under \$100 million (par amount)

Reso#	358	359	361	362	366	367	369			
Borrower	Fellowship Homes, Inc., dba Casa de Modesto	TLC Child and Family Services	Social Science Services, Inc.	Beacon House Association of San	Casa Colina, Inc. and Casa Colina Hospital	FamiliesFirst, Inc.	Gateways Hospital and Mental Health Center			
Application Rec'vd / Approval Date	26-Oct-10 / 6-Jan-11	26-Oct-10 / 6-Jan-11	28-Dec-10 / 28-Apr-11	3-Jan-11 / 28-Apr-11	1-Aug-11 / 25-Aug-11	1-June-11 / 25-Aug-1	29-Aug-11 / 29-Sep-11			
Closing Date	7-Oct-11	7-Oct-11	20-Oct-11	20-Oct-11	18-Oct-11	29-Sep-11	1-Dec-11			
Authorized Amount	\$3,300,000	\$3,000,000	\$1,500,000	\$2,000,000	\$50,000,000	\$15,500,000	\$8,225,000			
Par Amount	\$2,785,000	\$2,475,000	\$1,055,000	\$1,505,000	\$50,000,000	\$15,500,000	\$8,085,000			
Series / Mode * Private Placement	Series 2011 / Fixed	Series 2011 / Fixed	Series 2011 / Fixed	Series 2011 / Fixed	Series 2011 / Variable *	Series 2011 / Variable *	Series 2011A & B / Fixed			
Use of Proceeds	Refund	Refund	Refund	Refund	Finance or Refinance Construction Renovation Equipment	Refund	Acquisition			
Sale Date	09/21/2011	09/21/2011	09/29/2011	09/29/2011	10/18/2011	09/12/2011	11/09/2011			
Par	\$2,785,000	\$2,475,000	\$1,055,000	\$1,505,000	\$50,000,000	\$15,500,000	\$8,085,000			
CHFFA Fee	\$2,088.75	\$1,856.25	\$791.25	\$1,128.75	\$37,500.00	\$11,625.00	\$6,063.75	\$61,053.75		CHFFA Fee
Mgt Fee	\$250.50	\$2,833.95	\$2,795.70	\$3,988.25	\$0.00	\$0.00	\$31,434.95	\$41,303.35		Mgt Fee
Tkdwn	\$13,925.00	\$12,568.75	\$10,286.25	\$14,673.75	\$0.00	\$0.00	\$71,987.50	\$123,441.25		Tkdwn
UW Expns	\$3,230.75	\$3,159.80	\$2,743.05	\$3,913.50	\$0.00	\$0.00	\$8,219.00	\$21,266.10		UW Expns
UW Counsel	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00		UW Counsel
Bond Counsel	\$28,285.14	\$23,605.92	\$23,825.00	\$23,175.00	\$284,702.00	\$77,830.99	\$70,000.00	\$531,424.05		Bond Counsel
Borrower Counsel	\$4,211.25	\$4,151.25	\$17,000.00	\$14,000.00	\$174,329.00	\$30,201.05	\$0.00	\$243,892.55		Borrower Counsel
Disclosure Counsel	\$10,000.00	\$10,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$30,161.25	\$50,161.25		Disclosure Counsel
Financial Advisor	\$31,902.96	\$31,779.34	\$0.00	\$0.00	\$79,938.00	\$0.00	\$75,000.00	\$218,620.30		Financial Advisor
Rating Agency	\$6,400.00	\$6,400.00	\$6,100.00	\$6,100.00	\$0.00	\$0.00	\$11,000.00	\$36,000.00		Rating Agency
Trustee	\$3,100.00	\$3,100.00	\$4,800.00	\$4,800.00	\$3,600.00	\$1,605.00	\$3,500.00	\$24,505.00		Trustee
Letter of Credit	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00		Letter of Credit
Bank Counsel	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$37,500.00	\$0.00	\$37,500.00		Bank Counsel
Placement Agent						\$320,000.00		\$320,000.00		Placement Agent
Cal-Mortgage Bond Insurance	\$99,043.50	\$94,978.10	\$36,466.27	\$55,899.78	\$0.00	\$0.00	\$460,408.06	\$746,795.71		Cal-Mortgage Bond Insurance
Other Fees	\$6,401.25	\$6,044.41	\$9,350.00	\$8,201.70	\$419,931.00	\$33,738.05	\$153,774.09	\$637,440.50		Other Fees
								\$3,093,404		

Total of Cost of Issuance per Borrower

	\$208,839.10	\$200,477.77	\$114,157.52	\$135,880.73	\$1,000,000.00	\$512,500.09	\$921,548.60	\$3,093,404
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*Note: Other Fees can include Printing, Trustee Counsel, Accounting Fees, Auditors, Verification Consultant, Title Insurance and these fees can range from \$500 to \$100,000.

Average (includes Casa Colina)	\$441,915
Average (less - Casa Colina)	\$348,901

Based on:
\$3,093,404
\$2,093,404

The list represents the status of resolutions approved during the Calendar Year 2011.

Costs of Issuance for CY 2011 -- Transactions over \$100 million (par amount)

Reso#	360	363	364	365	371	373	374		
Borrower	Sutter Health	Kaiser Foundation Hospitals and Kaiser Foundation Health Plan, Inc.	Adventist Health System/West	St. Joseph Health System and Affiliates	Rady Children's Hospital – San Diego	Cedars-Sinai Medical Center	Scripps Health		
Application Rec'vd / Approval Date	3-Dec-10 / 6-Jan-11	4-Apr-11 / 11-Apr-11	1-Apr-11 / 28-Apr-11	4-Jun-11 / 30-Jun-11	27-Sep-11 / 12-Oct-11	7-Oct-11 / 27-Oct-11	31-Oct-11 / 1-Dec-11		
Closing Date	10-Feb-11; 22-Dec-11	3-May-11	9-Jun-11	14-Jul-11	22-Nov-11	21-Dec-11	1-Feb-12		
Authorized Amount	\$800,000,000	\$204,545,000	\$130,000,000	\$305,000,000	\$150,000,000	\$165,000,000	\$275,000,000		
Par Amount	\$785,300,000	\$204,545,000	\$130,000,000	\$302,110,000	\$100,000,000	\$148,400,000	\$275,000,000		
Series / Mode * Private Placement	Series 2011B / Fixed; Series 2011D / Fixed	Series 2011A-D / Fixed *	Series 2011A / Fixed *	Series 2011A-D / Variable	Series 2011 / Fixed	Series 2011 / Fixed	Closed in Year 2012		
Use of Proceeds	Construction Equipment; Refund	Acquisition	Acquisition Construction Equipment	Acquisition Construction Renovation Equipment	Finance or Refinance Acquisition Construction Equipment	Refund	Data Not Available at this time		
Sale Date		05/03/2011	06/09/2011	07/13/2011	11/09/2011	12/01/2011			
Par	\$785,300,000.00	\$204,545,000.00	\$130,000,000.00	\$302,110,000.00	\$100,000,000.00	\$148,400,000.00			
CHFFA Fee	\$533,225.00	\$150,000.00	\$97,500.00	\$226,582.50	\$80,500.00	\$111,300.00		\$1,199,107.50	CHFFA Fee
Mgt Fee	\$905,150.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00		\$905,150.00	Mgt Fee
Tkdwn	\$7,315,688.75	\$102,273.00	\$0.00	\$604,220.00	\$614,651.00	\$515,587.50		\$9,152,420.25	Tkdwn
UW Expns	\$166,059.60	\$8,500.00	\$0.00	\$20,125.97	\$38,590.00	\$37,596.22		\$270,871.79	UW Expns
UW Counsel	\$498,932.00	\$155,000.00	\$0.00	\$110,000.00	\$130,000.00	\$95,000.00		\$988,932.00	UW Counsel
Bond Counsel	\$606,566.00	\$150,000.00	\$175,000.00	\$180,250.00	\$175,000.00	\$150,000.00		\$1,436,816.00	Bond Counsel
Borrower Counsel	\$593,399.00	\$0.00	\$78,000.00	\$85,000.00	\$120,000.00	\$67,408.00		\$943,807.00	Borrower Counsel
Disclosure Counsel	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00		\$0.00	Disclosure Counsel
Financial Advisor	\$0.00	\$0.00	\$0.00	\$0.00	\$200,000.00	\$114,667.00		\$314,667.00	Financial Advisor
Rating Agency	\$674,398.00	\$80,178.00		\$217,102.22	\$133,300.00	\$153,800.00		\$1,258,778.22	Rating Agency
Trustee	\$14,100.00	\$10,000.00	\$2,700.00	\$7,413.83	\$5,200.00	\$12,000.00		\$51,413.83	Trustee
Placement Agent	\$0.00	\$0.00	\$100,000.00	\$0.00	\$0.00	\$0.00		\$100,000.00	Structuring Agent
Letter of Credit	\$0.00	\$0.00	\$0.00	\$381,283.59	\$0.00	\$0.00		\$381,283.59	Letter of Credit
Bank Counsel	\$0.00	\$0.00	\$25,000.00	\$161,163.33	\$0.00	\$0.00		\$186,163.33	Bank Counsel
Other Fees *	\$75,000.00	\$24,049.00	0	\$114,914.42	\$185,000.00	\$198,000.00		\$596,963.42	Other Fees
								\$17,786,373.93	
Total Costs of Issuance per Borrower	\$11,382,518.35	\$680,000.00	\$478,200.00	\$2,108,055.86	\$1,682,241.00	\$1,455,358.72		\$17,786,373.93	

*Note: Other Fees can include Printing, Trustee Counsel, Accounting Fees, Auditors, Verification Consultant, Title Insurance and these fees can range from \$500 to \$100,000.

Average	\$2,964,396
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