



MINUTES OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK

For the meeting held on
Friday, April 4, 2014, at 10:00 a.m.
980 9th Street, Suite 900
Sacramento, California 95814

Chairman Michael E. Rossi called the meeting of the California Infrastructure and Economic Development Bank (IBank) Board to order at 10:02 a.m.

1. Call To Order and Roll Call.

The following Board members were in attendance:

Michael E. Rossi, Chairman.
Jennifer Rockwell, represented the Director of the Department of Finance.
Blake Fowler, represented the State Treasurer.
Brian Annis, represented the Secretary of the Transportation Agency.
Peter Luchetti, Governor's appointee.

The following IBank staff members were in attendance:

Teveia Barnes, Ruben Rojas, Tom Tengan, Diane Cummings, John Belmont, and Jamie Fuentes.

Information Items

2. Executive Director's Report.

Executive Director, Ms. Teveia Barnes gave the Executive Director's report and informed the Board of the following:

Small Business Loan Guarantee Program Compliance & Credit Review

Ms. Barnes informed the Board that Sjoberg Consulting had been retained to conduct the annual review of the program. It was further explained that this review is a requirement due to the receipt of Federal funds and the scope is actually more in alignment with an audit than a simple review. The audit is beyond the range of the statutory requirement and will be used to evaluate the performance of the FDC's whose contracts are due for renewal in June. The scope of the audit will include an extensive review of the FDC's financial conditions, compliance with program requirements, and identification of any potential issues.

Discussion

- Mr. Rossi inquired about the selection of Sjoberg, the quality of their past work, and the cost of the audit.
- Mr. Rossi raised the issue of whether it would be cheaper to hire a full-time auditor and requested that the IBank consider hiring a full-time auditor. Mr. Rossi also stated that a full time internal auditor would provide a degree of continuity and consistency as well as a sustainable model since such an audit should be conducted annually.
- Ms. Rockwell suggested that other agencies with auditor staff such as the Department of Finance or the State Controller's Office could be utilized by the IBank.

- Mr. Annis asked if current SBLGP staff include auditors.
- There was discussion regarding the internal reviews that have been ongoing by SBLGP staff. Ms. Barnes stated she wanted a full program audit covering Credit and Compliance.

Response

- Ms. Barnes informed the Board that Sjoberg was selected for numerous reasons including the following:
 1. Prior experience working with the State Treasurer's Office (STO),
 2. Prior experience conducting reviews of the FDCs, the quality of the product they produced and the recommendations which were made as a result of their review,
 3. Selection of Sjoberg would also avoid any overlapping from the prior review and thus be efficient and cost effective for the State.
- Ms. Barnes informed the Board that the cost of the audit was \$120,000.
- Ms. Barnes agreed that it makes good business sense to look into retaining a full time auditor. Ms. Barnes also agreed to research utilizing the SCO's resources as suggested by Ms. Rockwell.
- Ms. Barnes shared that existing SBLGP staff do not have formal auditing experience.

Pipeline of ISRF Loans

Ms. Barnes stated that since the approval of the revised *Criteria, Priorities, and Guidelines*, the application process and the interest rate methodology, there has been increased interest in the program. There are approximately 40 active prospects and referenced attachment #2 of the Board packet which provided statistical data of the prospective projects such as: the makeup of the prospective clients, the category or type of projects and a snapshot of the range of the potential loan amounts.

Ms. Barnes also stated that IBank has been successful in attracting rated borrowers to the ISRF Program. It is anticipated that a couple of loans for rated borrowers may be coming to the Board in the next couple of months.

Discussion

- Mr. Luchetti commented on the difference between Municipal spreads, corporate spreads and the I Bank cost of borrowing. Mr. Luchetti asked if IBank had looked at any studies of Municipal spreads in comparison to corporate spreads and stated that Municipal spreads have moved out beyond corporate spreads which would cause an increase in activity and loan requests to the IBank.
- Mr. Rossi commented that this increase in activity would allow the IBank to increase its rates.
- Mr. Luchetti agreed with Mr. Rossi's statement and further stated that the interest rate is indicative and subject to Board discretion and final approval. Mr. Luchetti suggested that further discussion should take place outside of the current Board meeting.
- Mr. Rossi stated that rate setting should not be a blanket one size fits all approach but rather be established on the creditworthiness of the applicant and the risk profile.

- Mr. Luchetti mentioned a transportation deal recently discussed with Ms. Barnes.
- Mr. Fowler stated that the interest rate methodology, which was approved by the Board, is unrelated to the IBank's borrowing rate and stated that the interest rate methodology is tied to the borrower's rate and allows a small subsidy to be provided based on the applicant's credit spread only.

Response

- Ms. Barnes said IBank is using the Interest Rate Methodology approved by the Board in December at which time it was agreed that a 15% subsidy across the board would be offered.
- Ms. Barnes stated that the IBank is in current discussions with prospective borrowers and stated that if the Board is going to change the methodology, she needs to know to inform prospective borrowers.
- Ms. Barnes clarified that borrowers are getting different rates based on their credit worthiness and whether the project is in a distressed area.
- Ms. Barnes also stated that one of IBank's missions is to assist distressed communities which are in areas of high unemployment and low median household incomes. There will ultimately be a combination of financially strong rated borrowers as well as unrated borrowers in distressed communities.

Investment Portfolio

Ms. Barnes referenced the briefing materials provided with the Board packet. The Board did not have any questions regarding the products options available. The Board requested Ms. Barnes make her recommendation. Ms. Barnes stated that due to its flexibility and access to the funds without penalty, she is recommending the Flexible Repurchase Agreement with a fixed rate. She further explained that should the IBank exhaust its currently available funds, IBank would not be subject to any penalty under a Flexible Repurchase Agreement.

Discussion

- Ms. Rockwell asked if the IBank would have to execute a new contract if funds were exhausted as a result of issuing loans.
- Mr. Fowler stated that the STO's Investment Division is reviewing the recommendations but he has not heard back from them.
- Mr. Fowler commented that the Flex Repo product is approximately three basis points higher than the State's Surplus Money Investment Fund but has risks that SMIF does not have.
- Mr. Rossi asked for clarification on what we are defining as a liquidity portfolio to ensure everyone is on the same page and that everyone was evaluating the IBank's investment options with a common understanding.
- Mr. Luchetti asked if the Treasurer's Office would manage the IBank's investments.
- Mr. Fowler stated that he would follow up with the STO's staff and inquire whether the STO would be interested in managing the IBank's investment portfolio.
- Mr. Rossi directed Ms. Barnes to meet with Mr. Fowler and determine if the Treasurer's Office can help IBank with the investment portfolio and thus eliminate the need to outsource.

- Mr. Fowler requested quarterly reporting to the Board of all IBank expenses covered by held outside of the State system.

Response

- Mr. Bannon of First Southwest, in response to Ms. Rockwell's questions, stated that once the funds were exhausted, the contract would terminate.
- Ms. Barnes shared with the Board that other firms were consulted and afforded the opportunity to recommend investment structures. There was a proposal to actively manage the fund which would cost more. Ms. Barnes agreed to meet with the STO and further discuss the possibility of having the STO manage IBank's investment portfolio. Ms. Barnes asked if the money would stay with the Trustee under the Indenture for the ISRF Revolving Bonds. Both Mr. Rossi and Mr. Luchetti answered yes.
- In response to Mr. Fowler's request for a quarterly reporting to the Board of expenses covered by funds held outside the state system, Ms. Barnes agreed to such reporting.

Consent Item:

3. Approve minutes from the meeting held on February 25, 2014.

Chairman Rossi called for questions or comments from the Board and the public on the minutes. Hearing none, he entertained a motion to approve this consent item. Ms. Rockwell moved to approve the minutes. Before there was a second, Mr. Fowler requested a correction to the spelling of his name and then seconded the motion. The Board unanimously approved the minutes.

Action Item[s]:

Mr. Rossi switched the order of action items, discussing Resolution No. 14-03, Otis College, first.

4. **Resolution No. 14-03 – Otis College of Art & Design** Authorizing the issuance of tax-exempt obligations in an amount not to exceed \$35,000,000 to provide financial assistance for an eligible project for the benefit of Otis College of Arts and Design, a California Corporation.

Otis College requests approval for the issuance of Tax-Exempt Obligations in an amount not to exceed \$35,000,000 to be used to (1) refund the CEFA Bonds in an aggregate principal amount of approximately \$2,535,000 (2) finance the cost of acquisition, renovation and equipping of the real property and improvements located at 9045 Lincoln Boulevard, Los Angeles, California, and (3) pay certain costs of issuance in connection with the issuance of Tax-Exempt Obligations and other related costs.

The Project will enable Otis College to maintain, enhance and expand its degree-granting programs in arts and design without increasing its tuition for academic instruction. Otis College estimates that refunding the CEFA Bonds will result in an annual cash flow savings of approximately \$110,195. As a result, the tax-exempt financing will result in reduced operating costs, thereby increasing revenue to support an expansion of services to its students.

The Project will enable Otis College to provide residence to nearly 250 students, a student store and print shop, which will be partially operated by third party vendors, and enhance the college's wellness and counseling services.

Mr. Rossi called for any questions or comments from the Board.

Discussion

- Mr. Fowler stated he had a question on page 3 of the Staff report regarding the minimum denominations of the issuance.
- Mr. Rossi stated that he was concerned that the Chairman of the Board for the Otis College (Mr. Thomas Miller) is also a senior manager with City National Bank. Mr. Rossi asked if Mr. Miller had recused himself from the voting process while in his capacity with City National Bank.
- Mr. Rossi requested that Ms. Barnes inquire into this specific issue.
- Ms. Rockwell expressed support for the directive expressed by Mr. Rossi. Further explaining that if the current situation involved a state contract, this situation would be considered a conflict of interest.
- Mr. Fowler suggested a conditional approval which would hinge on the verification that Mr. Miller had recused himself from voting while in his capacity as a senior manager for City National Bank.

Response

- Mr. Balisy, who represented Otis College, stated that only the entire loan could be transferred to another entity.
- In response to Mr. Rossi's concerns, Mr. Balisy stated that City National Bank has had a long term relationship with Otis College. He further stated that he could not speak to whether the Chairman of the Board had recused himself from voting but stated that he knew that the process was at arm's length.
- Ms. Barnes agreed to look further into this matter.

Chairman Rossi called for any additional questions or comments from the Board or the public. Hearing none, he entertained a motion to approve Resolution No. 14-03. Mr. Luchetti moved to approve the resolution and Mr. Annis then seconded the motion based on the conditional approval as stated above. The Board then unanimously approved the resolution with the condition that Mr. Miller recused himself from the approval by the Otis College board.

After the conditional approval, further discussion resumed:

- Mr. Fowler commented that this refunding transaction for an educational facility and that this type of transaction would normally go through the California Educational Facilities Authority but in this case the transaction was not within their particular authority due to the particular structure of the transaction.
- Ms. Barnes indicated that this structure involved third party agreements, which is not a permitted structure for CSFA.
- Mr. Luchetti requested that the conditional approval be restated. Mr. Rossi stated the IBank is to ascertain whether the Chairman of the Board of Otis College had recused

himself from voting while serving as a Senior Officer of City National Bank. If such had not taken place, the Chairman is to be encouraged to recuse himself.

5. **Resolution No. 14-02 – Marlborough School** Authorizing the issuance of tax exempt obligations in an amount not to exceed \$29,500,000 to provide financial assistance for an eligible project for the benefit of Marlborough School, a California nonprofit corporation.

Marlborough requests approval for issuance of Tax-Exempt Obligations in an amount not to exceed \$29.5 million in tax-exempt obligations in a private placement with First Republic Bank. The proceeds of the Tax-Exempt Obligations will be used to (1) refund obligations issued by the IBank pursuant to that certain Master Loan Agreement, dated as of June 1, 2008, and amended as of June 1, 2009, and amended again as of January 25, 2012, in the aggregate principal amount of approximately \$11 million, (2) provide up to \$5 million of long-term financing for the Project, (3) provide up to \$13 million in “bridge” financing for the Project, and (4) funds costs of issuance up to \$500,000.

The project involves the construction of a state-of-the-art aquatic center, demolition of single family residences, expansion of a parking lot, construction of a security kiosk, expansion of an existing outdoor athletic field, and the modernization of miscellaneous related construction projects.

Chairman Rossi called for any questions or comments from the Board.

Discussion

- Mr. Luchetti commented on the appropriateness of characterizing the financing as a 15-year bridge loan.

Chairman Rossi called for any additional questions or comments from the Board or the public. Hearing none, he entertained a motion to approve Resolution No. 14-02. Mr. Luchetti moved to approve the resolution and Ms. Rockwell seconded the motion. The Board unanimously approved the resolution.

Reporting/Non-Action Items:

IBank Monthly Investment Transaction Report for Month Ending February 28, 2014

Chairman Rossi called for any questions or comments from the Board. Hearing none, he moved on to the next item.

Other Non-Action Business.

Chairman Rossi called for any other business; there was none.

Public Comment.

Chairman Rossi called for any public comment; there was none.

Adjournment.

Chairman Rossi declared the meeting adjourned at 10:47 a.m.