

# CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

## BOND FINANCE PROGRAM STAFF REPORT

### INCREASING IBANK CONDUIT BOND PROGRAM FEES

#### ISSUE

Given IBank's Bond Finance Program's revenue, it is unable to fully cover its expense most years. Consequently, IBank seeks to increase the fees charged to applicants under its Bond Finance Program.

The Bond Finance Unit's fees have not increased since 2017. IBank staff, in consideration of the COVID-19's impact on California businesses, have postponed amendment of the Fee Schedule. IBank now, after careful consideration and based upon a survey of conduit fees across the State, seeks to increase the Bond Finance Program fees for its various Bond categories.

The new Proposed Fee Schedule ("Proposed Fees") vs. Current Fees, attached hereto as **Attachment I**, if approved by the Board, would be effective as of February 1, 2024.

#### BACKGROUND

The Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 and following) (the "Act") governs the California Infrastructure and Economic Development Bank ("IBank"). IBank is authorized under the provisions of the Act to issue tax-exempt and/or taxable revenue bonds to provide financing and refinancing for eligible projects located in the State of California (State). Section 63034 of the Act provide that the bank shall establish a reasonable schedule of administrative fees, which shall be paid by the sponsor or the participating party pursuant to Section 63074, to reimburse the state for the costs of administering this division. The Act authorizes IBank to charge, and equitably apportion among sponsors and participating parties, IBank's administrative costs and expenses incurred in the exercise of its powers and duties conferred by the Act (Section 63025.1.(o)).

IBank's Bond Finance Program's operating expenses are paid primarily from the administrative fees collected for the services IBank provides under the program. IBank seeks to operate the Bond Finance Program in a manner where its revenues generally cover its costs.

Under its Bond Finance Program, IBank issues the following four categories of conduit bonds: 501(c)(3) Bonds, Industrial Development Bonds ("IDBs"), Exempt Facility Bonds, including P3 financing ("EXF Bonds"), and Public Agency Revenue Bonds ("PARBs"). Since 1995 IBank has issued 482 tax-exempt and taxable revenue bonds for various projects, plus rate reduction bonds with an aggregate par amount of over \$50 billion. The Proposed Fees follow different scales for 501(c)(3)s and Exempt Facility Bonds.

Consistent with IBank's practice for amending the Bond Finance Program's Fee Schedule in 2017, the staff reviewed other California conduit issuers bond financing programs and their related fee schedules. IBank staff contacted these conduit issuers' staff for their confirmation on

the accuracy of the collected fees, and similarities of the programs being compared. The Proposed Fees are the result of extensive discussion with IBank's management team.

The review discussed above allowed IBank to identify fees below those of comparable issuers and bring them into relative parity. For this reason, IBank did not propose blanket fee increase for all par amounts, fee types, and bond categories. IBank remains sensitive to these costs and their impact on borrowers, evidenced by IBank making minimal adjustments at the \$10 million - \$30 million range.

By requesting the effective date of the Proposed Fees on February 1, 2024, IBank seeks to provide our current and future clients with notice of upcoming fee adjustments.

## **BOND FINANCE PROGRAM FEE CATEGORIES**

IBank's Bond Finance Program's fee schedule for conduit bonds is divided into three different fee categories: the Application Fee, the Issuance Fee and the Annual Fee.

- **Application Fee:**
  - Application Fee is a one-time, non-refundable, fee that conduit borrowers pay when submitting their Application. The Application fee is intended to be low but confirms the serious intent of the parties to complete the transaction. In the Proposed Fees, the Application Fee will be applied to the Issuance Fee at Closing
- **Issuance Fee:**
  - Issuance fee amount is much larger, but it will only be charged on successful issuances and is intended to cover IBank's administration costs for approval of new transactions.
- **Annual Fee:**
  - Annual fee is lower amount compared to the Issuance Fee, but is intended to cover the costs of administering outstanding bonds, addressing amendments and post-issuance compliance matters, and reporting to CDIAC and other statutory requirements. The Annual Fee calculation in both current and Proposed Fee Schedule is based on the par amount outstanding until the bonds/obligations are fully redeemed, and therefore declines over time. In the current Fee Schedule, the Annual Fee is fixed amount for set par ranges and bond transactions will pay the Annual Fee set at the range above their par sizes till their outstanding balance is reduced and reaches to the lower par range. In the Proposed Fee Schedule, the Annual Fee will be determined via application of the defined basis point. The Annual Fee is due each September 1<sup>st</sup>.

## **BOND FEES CHARGED BASED ON DEAL SIZE**

The IBank Proposed Fees are based on certain basis points applicable to the defined par-amount ranges. IBank's outreach to bond deal teams confirmed that certain issuance ranges are more price sensitive than others, and IBank has sought to provide more nuanced pricing in these ranges. Similarly, due to limited number of bonds issuance over \$500 million, staff have removed the two ranges at \$1 billion and over \$1 billion. While IBank Bond Finance Program will

continue to accept and review transactions over \$500 million, the applicable Fee Schedule for such transactions will be specifically negotiated based on the market condition and each project's complexity. Those fees will be approved by the Board at the time the transaction is before it for approval.

## **APPLICATION FEES TO BE SET AT FIXED RATE**

IBank's Application Fees are one-time, non-refundable fees due at the time of the application is submitted. IBank's Current Fee Schedule ranges from \$2,000 to maximum of \$5,000. The Proposed Application Fee applies a fixed amount of \$5,000 to all bond transactions regardless of their par sizes. The flat rate fee is in line with the fee structure 88% of the conduit issuers use<sup>1</sup>.

The IBank Application Fee will be applied to the Issuance Fee at closing and is applicable to the bond categories included in the Proposed Fee Schedule. There will be minimum fee combined Application and Issuance fee of \$5,000 for smaller transactions.

IBank is not proposing a change to the Fee Schedule for IDBs at this time due to low activity in this bonds category.

## **ISSUANCE FEES ADJUSTED BY TYPE**

IBank's current Fee Schedule considers the same fee scale for 501(c)(3)s and Exempt Facility Bonds and the fees range between minimum of \$2,500 up to \$200,000 for \$500 million par amount. In the current Fee Schedule, the fixed fees have been assigned based on certain par ranges. The transactions with par amounts between the defined par ranges will pay the fees applicable to the top range. For example, based on the current Fee Schedule a transaction with par amount of \$20 million will pay the fees set for the \$30 million par range.

The Proposed Fees are different for each bond category and apply basis points to determine the applicable fees. The Proposed Issuance Fee assigns minimum of \$15,000 for bonds transactions up to \$5 million, then assigns different basis points for (i) par sizes between \$5 million up to \$10 million, (ii) over \$10 million to \$120 million, and (iii) over \$120 million to \$500 million.

For 501(c)(3) nonprofit bonds transactions, the Issuance Fee has been reduced for all par amounts over \$5 million. Applying basis points will provide more flexibility, allowing for reduced Issuance Fees for transactions with par sizes between the defined par ranges. This adjustment has been made in support of small businesses and non-profits with relatively small financing sizes that are price sensitive. The 501(c)(3) nonprofit bonds transactions in these par ranges are generally private entities and their related transactions are issued as private placements and are structured as loans. The IBank projects in this category and par amounts are usually schools and social services firms.

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<sup>1</sup> Source:

[https://www.cdfa.net/cdfa/cdfaweb.nsf/ord/CDFAcdfs.html/\\$file/CDFa%20Conduit%20Bond%20Fee%20Study.pdf](https://www.cdfa.net/cdfa/cdfaweb.nsf/ord/CDFAcdfs.html/$file/CDFa%20Conduit%20Bond%20Fee%20Study.pdf)

The EXF Bonds Issuance Fees follow a relatively larger scale compared to 501(c)(3) nonprofit bonds Issuance Fees. The EXF Bonds (including P3s) are relatively large sizes and as these transactions are less frequent. It will be less likely to receive EXF Bonds with par amounts less than \$50 million. The Proposed Issuance Fee assigns minimum of \$30,000 for bonds transactions up to \$5 million and then assigns different basis points for (i) par sizes between \$5 million up to \$10 million, (ii) over \$10 million to \$120 million, and (iii) over \$120 million to \$500 million. The Proposed Issuance Fees for EXF Bonds have moderately increased for all par sizes and remain close to or lower than the average Fees charged by few other issuers on par sizes over \$10 million.

As noted earlier, the applicable Issuance Fee for bonds transactions over \$500 million will be specifically negotiated based on the market condition and each project's complexity.

### **ANNUAL FEES INCREASED TO MATCH MARKET**

IBank's Proposed Annual Fee for 501(c)(3) Bonds will be \$1,500 for bonds transactions up to \$10 million par amounts. For par amounts above \$10 million, the Proposed Annual Fee will be charged based on basis points of the outstanding bonds. There will be a different basis point charge for (i) par amounts between \$10 million and \$100 million, and (ii) par amounts over \$100 million up to \$500 million. The move away from fixed annual fees to a basis point charge is consistent with other issuers most similar to IBank.

The Proposed Annual Fees for EXF Bonds apply a defined basis point to all par sizes. The scale of Annual Fees for EXF Bonds is higher than Annual Fees for 501(c)(3)s due to the complexity of EXF Bonds transactions. The Proposed Annual Fee for EXF Bonds is lower than the average Annual Fees charged by a few other issuers for par amounts over \$10 million.

For 501(c)(3) Bonds and EXF Bonds transactions, (i) the Proposed Annual Fees on bonds transactions with par amounts over \$500 million, will be negotiated, and (ii) the proposed Annual Fee would decrease modestly based on the par amount outstanding on June 30 of the year the Annual Fees are due, as reflected in the tables below.

### **PARB FEES**

Due to their infrequent and unique nature, PARB transactions will continue to be evaluated on an on-going basis and charged fees consistent with their complexity and size.

### **STAFF RECOMMENDATION**

Staff recommends approval of the Proposed Fees for conduit bonds/obligations issued under the IBank Bond Finance Program. The Proposed Fees, if approved, will be effective on February 1, 2024 and will be applied to conduit bonds/obligations transactions where IBank received the Application on or after the effective date of the Proposed Fees. Please see the Proposed Fees on **Attachment I**.

**Attachment I– IBank Conduit Bonds Proposed Fees**

Bond Type	Application Fee <sup>1</sup>	Issuance Fee			Annual Fee <sup>2,3</sup>
		Up to \$10 million	Over \$10 million - \$120 million	Over \$120 million - \$500 million	
501(c)(3) nonprofits	\$5,000	20 bps (Minimum \$15,000)	\$20,000, plus 5 bps on amounts over \$10 million up to \$120 million	\$75,000, plus 2.5 bps on amounts over \$120 million up to \$500 million	1.5 bps up on amounts up to \$100 million, minimum of \$1,500; \$15,000, plus 0.5 bps on amounts over \$100M - \$500 million
Exempt Facility Bonds	\$5,000	40 bps (Minimum \$30,000)	\$40,000, plus 10 bps on amounts over \$10 million up to \$120 million	\$150,000, plus 5 bps on amounts over \$120 million up to \$500 million	3 bps up on amounts up to \$100 million, minimum of \$3,000; \$30,000, plus 1 bps on amounts over \$100M - \$500 million

1- Application Fee will be applied to the Issuance Fee at the Closing.

2- For Bond Transactions with par amounts over \$500 million, the Issuance Fee and Annual Fee will be Negotiated.

3- Annual Fee is due on September 1st. Annual Fee is calculated based on the outstanding balance of the bonds transaction as of 6/30 each year and is due until the bonds/obligations are outstanding.