

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, January 13, 2016
11:00 a.m.

915 Capitol Mall, Room 587
Sacramento, California 95814

Deputy State Treasurer Vincent P. Brown, serving as Chair, called the meeting to order.

Roll Call

Members Present: Vincent P. Brown, designee for John Chiang, State Treasurer
Nick Schweizer, designee for Tom Torlakson, Superintendent of Public Instruction
Eraina Ortega, designee for Michael Cohen, Director of Finance

Staff Present: Katrina Johantgen, Executive Director
Laura Martinez, Manager
Jose Franco, Program Analyst
Ian Davis, Program Analyst
Kristen Schunk, Program Analyst
Jodie Jones, Program Analyst
Anne Osborne, Program Analyst
David Weinberg, Program Analyst (participated via phone line)
Nicolaus Seppi, Office Technician

Chairperson Brown declared a quorum present after rollcall, after which Katrina Johantgen welcomed those on the phone lines to the Board meeting.

Approval of Minutes: The minutes from the December 9, 2015 Authority Board meeting were presented to the Board and approved unanimously by roll call.

Executive Director's Report

Charter School Facility Grant Program: Ms. Johantgen told the Board that the Authority continues to disburse funds. For the 2014-15 funding round, \$74 million has been disbursed, and \$28 million for 2015-16. The Authority will also submit permanent rules to OAL by the end of the month.

Charter School Revolving Loan Fund Program: Ms. Johantgen told the Board that the 2015-16 funding round had opened. Because the Authority did not pull from the Security Fund, they expect to disburse \$8 million, which means Priority 1 schools will be oversubscribed. The Board will see reviews in June.

Conduit Bond Program: Ms. Johantgen told the Board that the Authority has issued \$555 million in 45 bond and note financings since August 2010. The Board will review 2 additional bonds at today's meeting.

Charter School Facilities Program: Ms. Johantgen told the Board that they will review a final apportionment for DaVinci Design today. The Authority will also be making changes to some program agreements.

State Charter School Facilities Incentive Grants Program: Ms. Johantgen told the Board that the Authority will open Round 12 when new regulations are in effect around March or April. Recommendations will be brought to the Board in June.

Charter School Facilities Credit Enhancement Grant Program: Ms. Johantgen told the Board that the Authority has submitted its annual report to the Feds and is continuously monitoring accounts and collecting interest.

Administrative and Legislative Update: Ms. Johantgen told the Board that the Authority has submitted two spring finance letters to the Department of Finance and is tracking legislation that would impact the Authority.

Chairperson Brown asked if the Authority ever submitted a formal summary document to the Board for review. Ms. Johantgen confirmed the Authority could submit such a document for future meetings.

Item 4: Resolution No. 16-01 - Authorizing the Issuance of Charter School Revenue Refunding Bonds in an Amount Not to Exceed \$100,000,000 to Finance and Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and / or Equipping of Educational Facilities Located in Alameda County, Los Angeles County, Sacramento County, San Joaquin County, and San Mateo County for College for Certain, Inc.

Ms. Johantgen called the underwriting team before the Board to answer questions regarding the proposed financing. The underwriting team presented the board with an overview of the financial and legal structure of the proposed financing. They shared that they are expecting confirmation by Friday 29th on Aspire's BBB rating from the rating agencies. The team explained that the schools being added are as financially strong as the original schools, a claim which the Chairperson agreed with.

Ms. Ortega made a motion to approve and Mr. Schweizer seconded. After a call for public comment, the resolution was approved unanimously by rollcall.

Item 5: Resolution No. 16-02 - Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$50,000,000 to Finance and Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and / or Equipping of Educational Facilities Located in Santa Clara County, California for Downtown College Prep

Ms. Johantgen called the financing team before the Board, and the chairperson asked them to provide an explanation of the organization and structure of the deal. As no school representative was present at the meeting, John Kim from Stifel briefly explained the history

of Downtown College Prep (DCP) and the current status of the school operator. He explained that DCP operates four schools in two clusters located in Downtown San Jose and East San Jose. Each location has a high school with two middle schools feeding into it, though the second middle school in each location has yet to open. Mr. Kim explained that this bond transaction will finance and refinance facilities for DCP. Through a 34-year structure, approximately \$47,500,000 of bond proceeds will be used to purchase, design, and build new facilities for the downtown high school, and middle school currently in Prop. 39 facilities to co-locate and centralize their schools in the community they serve. These school facilities will likely be completed by January 2017, and have long-term ground leases with the district (San Jose Unified School District). DCP anticipates an increase in income due to the larger facilities as well as an increase in population in their downtown middle school through the matriculation of their 7th grade into a new 8th grade, as well as pursuing a material revision with their charter authorizer to add a hundred-student 5th grade. From these additions, they anticipate their population to increase from a combined 904 students in the three schools to 1,450.

The bond transaction has a component of partially capitalized interest in order to increase coverage for the next three years. Additionally, with the \$3.5 million of bond proceeds, DCP also plans to refinance an existing loan for the second middle school in east San Jose, DCP Alum Rock, which was constructed last year with funds from a private source.

Mr. Kim then answered questions from the Board, confirming that there are currently several hundred applications for enrollment submitted to the high school, and that they tend to have high retention rates. He stated that DCP anticipates an increased net income from the three schools combined from \$1.9 million in 2016-17 to \$2.3 million by 2019, but assured the Board that if student population goals are not met, DCP has room to make cuts in their existing budget. Finally, he confirmed for the Board that the location—formerly a lumber yard—will have environmental field testing done, including exploratory bore drilling to test soil under the asphalt with results expected in February, but that DCP is working with the district to get a categorical exemption from CEQA (the California Environmental Quality Act). Mr. Kim added that that there could be a delay but financially, the district would be responsible for any clean-up as stipulated in the ground lease.

Ms. Ortega made a motion to approve and Mr. Schweizer seconded. After a call for public comment, the resolution was approved unanimously by rollcall.

Item 6: Resolution No. 16-03 – Approval of Financial Soundness Determination for DaVinci Design located in Los Angeles County for a Final Apportionment through the Charter School Facilities Program

Ms. Johantgen explained that this is a final apportionment of a deal first reviewed by the Board in 2014. Da Vinci Design will enter into an agreement with Wiseburn School district to use their general obligation as the local match share, and in exchange maintain the building and remain in compliance. Additionally, the project will facilitate three schools under Da Vinci Design.

Ms. Ortega made a motion to approve and Mr. Schweizer seconded. After a call for public comment, the resolution was approved unanimously by rollcall.

There being no additional public comments or other business to conduct, the meeting was adjourned.

Respectfully submitted,

Katrina Johantgen
Executive Director