

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Thursday, May 19, 2016
1:00 p.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
Eraina Ortega, designee for Michael Cohen, Director of Finance
Nick Schweizer, designee for Tom Torlakson, Superintendent of Public Instruction

Staff Present: Katrina Johantgen, Executive Director
Laura Martinez, Manager
Ian Davis, Program Analyst
Kristen Schunk, Program Analyst
Jodie Jones, Program Analyst
Anne Osborne, Program Analyst

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

Item 2: Approval of Minutes: The minutes from the March 9, 2016 Authority Board meeting were presented to the Board and approved unanimously by roll call.

Item 3: Executive Director's Report

Due to the length of the agenda and the items to be discussed, Ms. Johantgen asked the Board members if they had any questions regarding the written documentation they received on the program updates contained in Item 3 of the binder. With no questions asked, the meeting continued.

Item 4: Resolution No. 16-08 – Resolution Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$45,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and/or Equipping of Educational Facilities Located in Los Angeles County, California for Alliance For College-Ready Public Schools Facilities Corporation

Ms. Johantgen provided some information about the item and introduced the financing team who was available to answer questions: David Hyun and Catherine Suitor from Alliance College-Ready Public Schools, Eugene Clark-Herrera from Orrick, Herrington and Sutcliffe serving as Bond Counsel, and Bill Wildman from Piper Jaffray, serving as Underwriter.

Mr. Wildman explained that this deal is a refinancing of existing debt for five schools that will be added to an Obligated Group Structure (OGS), which raised its rating with S&P to a BBB- and the Alliance CMO to BBB; both of which are investment grade ratings. Three additional schools were originally included in this deal but were removed due to the associated fees. Mr. Wildman expects the deal to price in the next two weeks and closing to occur in the second to last week of June.

Ms. Ortega made a motion to approve, Mr. Schweizer seconded. Chairperson Brown called for public comment.

Ed Gutierrez from the California Teachers Association (CTA) came forward to provide comments and concerns from the CTA. Mr. Gutierrez voiced multiple concerns regarding the Authority's bond application process and not allowing adequate time to review large and complex deals and the ability for applicants to change details at the last minute after deadlines have passed. He used the current Alliance bond deal as an example. Mr. Gutierrez further suggested a change to the Authority's fee structure to counter the additional time required to review these complex deals.

Additionally, Mr. Gutierrez identified current legal issues facing Alliance that were not mentioned in their application that can place their charter at risk and should have been disclosed. Mr. Clark-Herrera addressed the legal concerns by saying that the due diligence process reviewed all categories of the school organization and determined it was immaterial to describe to bondholders.

After Mr. Brown called for any additional public comments, the resolution was approved unanimously by rollcall.

Item 5: Withdrawn Resolution No. 16-09

Item 6: Resolution No. 16-10 – Resolution Authorizing the Issuance of School Facility Financing Notes in an Amount Not to Exceed \$23,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and/or Equipping of Educational Facilities Located in Los Angeles County, California for Ocean Charter School

Ms. Johantgen introduced the members of the financing team to the Board; Bill Wildman, Eugene Clark-Herrera, Jim Bush, and Kristy Mack-Fett. This is an unrated and tax-exempt deal with a final maturity of January 1, 2019.

Mr. Wildman explained this is a note financing restricted to institutional investors, interest only (which will be escrowed at closing), with principal due at maturity. The bridge financing is meant to last until the school receives Prop 1D funding next year. He explained that originally, Ocean Charter received \$19.9 million to build a facility, but have since applied to convert to a larger par amount of \$25 million, with an additional \$25 million grant from LAUSD. They currently have a purchase contract that expires June 17th to buy the property. To pay off the notes, Ocean Charter is pledging both the grant revenues, and their full faith and credit.

Mr. Schweizer asked for a timeline of the current deal. According to Mr. Bush:

- They received the preliminary apportionment a few years ago

- California Department of Education requirements started four months ago
- Health and safety studies are finished
- CEQA reviews and project design has started
- They expect to be in DSA at the end of August and finished by early 2017
- They expect filing the conversion application in March 2017, with a May 2 deadline
- Will purchase mid to late June 2016; noteholders will hold the property until it is converted

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 7: Resolution No. 16-11 – Approval to Augment Round 11 State Charter School Facilities Incentive Grants Program (CFDA 84.282D) Awards

Ms. Johantgen detailed the history of the Program, and explained that some of the awards made in the last funding round required augmentation, which will require an addendum to the existing grant agreement. After it was noted some items did not correctly reflect the current amounts, the item was put on hold until the correct pages were gathered.

Later, Ms. Ortega asked about the updated “N/A” identifiers. Ms. Johantgen explained the Authority was still making determinations before the Board meeting and further analysis determined some schools did not require augmentation. Ms. Ortega requested that future items should have such schools entirely removed. Mr. Paxson confirmed the resolution should be consistent but can be updated after the vote if the Board approves it.

Ms. Ortega made a motion to approve by amending Exhibit A to remove the “N/A” schools and Mr. Schweizer seconded. After a call for public comment, the resolution was approved unanimously by rollcall.

Item 8: Resolution No. 16-12 – Approval of Financial Soundness Determination for Lazear Charter Academy located in Alameda County for an Advance and Final Apportionment through the Charter School Facilities Program

Ms. Johantgen told the Board that Lazear Charter has a \$12 million preliminary apportionment, and is seeking a financial soundness determination for an advance and final apportionment, which will be in effect for a year, barring material changes.

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 9: Resolution No. 16-13 – Approval of Financial Soundness Determination for Yuba River Charter School located in Nevada County for a Final Apportionment through the Charter School Facilities Program

Ms. Johantgen told the Board that Yuba River Charter has a \$9.6 million apportionment, and is seeking a financial soundness determination for an advance and final apportionment. Chairperson Brown asked Ms. Johantgen to explain the difference between the 2010 lottery and Prop 1D funding rounds; she answered that the 2010 lottery funding came from rescinded projects and a carryover from Prop 47 to Prop 55.

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 10: Resolution No. 16-14 – Approval of Financial Soundness Determination for Natomas Charter School located in Sacramento County for a Final and Advance Apportionment through the Charter School Facilities Program

Ms. Johantgen explained that this is a new construction and rehabilitation apportionment of \$6.5 million. Natomas Charter's healthy finances and good student record were noted.

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 11: Resolution No. 16-15 – Approval of Revolving Loan Fund Program Recommendations and Amounts

Ms. Johantgen presented the Board with 18 Priority 1 Schools for loan approval under the Charter School Revolving Loan Fund program. Ms. Johantgen noted that staff is attempting to further mitigate default risk on loans (currently at 2%) by matching the loan amortization with the charter term.

Mr. Schweizer asked Ms. Johantgen what happens if a school delays opening. She responded that schools must have a CDS code, a facility, and other requirements to get a loan. He followed up by asking about the Authority's follow-up review procedures. Ms. Johantgen said that loan agreements will be accepted soon after the Board meeting, and the Authority will continue to monitor compliance through the offset process and contact schools directly if necessary. The Authority is also continuing to collect defaulted loans. The Authority's current two-year plan is to check in and do site visits on schools receiving loans.

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

Item 12: Consideration of Appeal on Behalf of Dr. Lewis Dolphin Stallworth Sr. Charter located in San Joaquin County Related to Ineligibility for the Charter School Facility Grant Program

Ms. Johantgen presented some background for the appeal item before inviting members of the public to speak. Alice Stallworth, Principal of Stallworth, and Board Chair Dr. Daniel Ramirez, and Sarah Kollman of Young, Minney & Corr represented the school.

Ms. Stallworth and Dr. Ramirez made a defense for keeping the funds to permit more spending for student-related items. They then shared a history about the charter and Dr. Stallworth, and the work the school does for the children and the distressed community.

Ms. Kollman then moved the discussion towards the more legal aspects of the appeal. Ms. Kollman contended that Gayle Stallworth's position with the church is strictly "clerical" in nature and that, even if she meets the definition of a related party, she substantially complied with CSFA regulations by identifying her role with the church and not participating

in the approval of the lease by the charter school board. Ms. Kollman pointed to a declaration submitted with the school's appeal in support of her contention.

Mr. Paxson clarified that the related party issue at play is not whether Ms. Stallworth was in a position of control with the related party. That being an employee of the related party and being in a position of control with the school required compliance with CSFA regulations and that there was insufficient evidence that Ms. Stallworth had done so.

After deliberation between Board members, Ms. Ortega made a motion to overturn staff's appeal decision and Mr. Schweizer seconded. After a call for public comment, the appeal was approved unanimously by rollcall.

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

Respectfully submitted,

Katrina Johantgen