

California School Finance Authority
Qualified School Construction Bonds
2009 Program Parameters

Overview

The American Recovery and Reinvestment Act of 2009 (ARRA) provides funding for the new construction or renovation of school facilities through the use of Qualified School Construction Bonds (QSCBs). California has received more than \$773 million in “volume cap” allocation (not including direct allocations to large local educational agencies) for the issuance of QSCBs in calendar year 2009. Of this amount, approximately \$73 million has been reserved for use by charter schools through the issuance of conduit revenue bonds by California School Finance Authority (CSFA) which will be designated as QSCBs.

QSCBs offer bond issuers like CSFA the ability to sell bonds that confer a federal income tax credit to the holder. Tax credit bond proceeds may be used for the construction, rehabilitation and repair of public school facilities (other eligible costs include the acquisition of land for construction purposes or the purchase of equipment to be used in the project being constructed, rehabilitated, or repaired).¹ It should be noted, however, that QSCB allocations are not grants, but rather an authorization to seek out and utilize a low interest rate (potentially interest free) loan from capital markets investors that may be interested in receiving a federal tax credit in lieu of interest income from the borrower. Although the final maturity of the loan may vary slightly, it typically is limited to approximately 15 years.

CSFA will issue QSCBs on behalf of successful applicants that best meet the program priorities in one or more funding rounds. Proceeds from the sale of QSCBs will then be loaned by CSFA to each participating charter school under the terms of a loan agreement serving as the underlying collateral for the repayment of principal and interest, if any, on the QSCBs. To the extent feasible, CSFA will aggregate individual borrower loans into a pooled bond issuance in an effort to reduce overall financing costs for the QSCBs (all transaction costs will be passed on to the participating borrowers). CSFA will not be guaranteeing repayment of any of the individual loan agreements serving as the source of

¹ Proceeds of QSCBs may not be used to refinance existing facilities or for the acquisition of existing facilities. However, paying costs of renovation or repair of existing facilities already owned by the charter school is permissible.

repayment for the QSCBs. Accordingly, although CSFA may award QSCB borrowing authority to an individual applicant and agree to serve as the conduit issuer for the bonds, such allowance of QSCB authority by CSFA in no way guarantees that any borrower will be able to access the capital markets or the precise terms upon which it may actually borrow. Ultimately, the success or failure of any sale, as well as all final security features (e.g. deed of trust, third-party credit enhancement, etc.) will depend upon market supply and demand forces including the individual credit characteristics of each borrower.

~~Site-based c~~Charter schools ~~with no less than three full years of operational history~~ interested in taking advantage of QSCBs should apply to CSFA for QSCB borrowing authority (see “2009 Program Parameters” below as well as the attached “Application”). CSFA will conduct a preliminary review of all applications submitted and will serve as the conduit bond issuer of QSCBs for those charter schools with “shovel ready” projects that are also best able to demonstrate that they will be capable of accessing the capital markets. Among other factors, CSFA will evaluate the borrower’s operating history, credit profile, fiscal management, relationship with its chartering authority, likelihood of satisfying third-party credit enhancement provider and/or rating agency requirements, if any, and ability to comply with all federal and state QSCB requirements (refer to ARRA and Internal Revenue Service Notice 2009-35). In light of the foregoing, charter schools should only apply for this program if they have a strong capacity to undertake and repay debt. Moreover, charter schools also should have facility projects that are imminently ready for construction in keeping with the ARRA's intent to stimulate the economy and create jobs. Specifically, applicants must reasonably expect to incur a binding commitment with a third party to spend at least ten percent of the proceeds of the bonds within six months of the QSCBs issuance date, and to spend the remainder within three years of this date.

2009 Program Parameters

Applicant Criteria

- An applicant will be considered for an award of QSCB borrowing authority only if it operates a charter school that meets all of the following threshold criteria:
 - ✓ the charter school is operated as, or is operated by, a non-profit entity;
 - ✓ the charter school has an approved charter in place and current at the time of application and continuously through the date of bond issuance;
 - ✓ the authorizer certifies that the charter school is in good standing with its chartering authority and is in compliance with the terms of its charter;
 - ✓ ~~the charter school provides the level of classroom based instruction as outlined in Education Code Section 47612.5 (e)(1).~~
 - ✓ the charter school or its operator (if the operator also will be obligated to repay the loan) applicant ~~has completed~~ at least three full school years of instructional operation experience as of June 30, 2009.
- Following a review of all applications and a preliminary award of borrowing authority, CSFA will ask applicants to provide additional disclosure information in connection with a public offering of debt. Such information also may be required for a private placement of the bonds.

Borrowing Authority Amounts per Authorization Cycle

- Minimum of \$2 million per school
- No maximum

Application Time Line and Priority

- Applications are due ~~August 31, 2009~~ by September 14, 2009 by 5:00 p.m. CSFA will notify applicants who are awarded QSCB borrowing authority by October 23rd, 2009.
- Approval will be done on a case-by-case basis. If oversubscribed, staff will present a list to the board based on the criteria listed below.
- If the program is oversubscribed, priority will be afforded first to those charter schools with “shovel ready” projects that are best able to demonstrate to CSFA, in its sole discretion, which they will be capable of accessing the capital markets or be privately placed with an investor(s). For example, applicants able to obtain credit

enhancement for a QSCB financing (e.g., bank letter of credit), applicants contributing substantial equity to a project, or applicants otherwise able to obtain investment-grade credit ratings are likely to receive priority over other candidates. In the event that multiple applicants appear to satisfy these criteria, priority will be given to applications with the earliest mailing time. Applications that are hand-delivered and do not have a mailing time will be given preference based on the time received by the CSFA.

- Subsequent authorizations cycle may be considered if QSCB borrowing authority remains available after the initial application period.

Issuance

- Subject to CSFA's sole discretion, any authorization to borrow QSCB proceeds is contingent on the issuance of the QSCBs by [March 31, 2010], after which time the authorization expires and CSFA may give the authority to another qualified applicant.

**APPLICATION FOR AWARD OF
QUALIFIED SCHOOL CONSTRUCTION BOND BORROWING AUTHORITY**

Please forward two (2) copies of the items identified below including the completed application. The preferred method of delivery is electronic copies of all documents saved to CD-ROM, but hard copies will also be accepted. Applications should be sent to the following recipient and address:

Katrina Johantgen, Executive Director
California School Finance Authority
304 South Broadway, Suite 550
Los Angeles, CA 90013
(213) 620-2305 telephone

1. BORROWER INFORMATION

1.1. Borrower Information

- A. Legal Name of Borrower: _____
- B. Federal Identification Number: _____
- C. Official Name of charter school (project facility): _____
- D. County-District-School (CDS) Code: _____
- E. CDE-Assigned Charter #: _____
- F. Official school mailing address: _____
- G. Contact Information (for questions regarding application):

	Primary Contact	Secondary Contact
Name:	_____	_____
Address:	_____	_____
	_____	_____
Telephone:	_____	_____
Facsimile:	_____	_____
Email:	_____	_____

- H. The charter school provides the level of classroom based instruction as outlined in Education Code Section 47612.5 (e)(1) Yes:
- I. Attach a completed and signed Legal Status Questionnaire for the borrower. See Attachment [X.]

1.2. Structure/Management Information

A. The school is (check all that apply):

Nonprofit entity pursuant to Internal Revenue Code section 501(c)(3). Attach copy of 501(c)(3) letter as Attachment [1.2.A.]

Nonprofit public benefit corporation pursuant to California State Corporations Code, Title 1, Division 2, Part 2, section 5110, et seq. Attach copy of certification by California Secretary of State as Attachment [1.2.A.]

Operated by a Charter Management Organization (CMO)

Other – If other, please describe. Provide description

B. If the school is operated by a CMO, is it organized and operated as a California nonprofit?

Yes No Not operated by an CMO

If "No", please describe legal structure of CMO: _____

C. CMO Contact Information (for questions regarding the application):

	Primary Contact	Secondary Contact
Name:	_____	_____
Address:	_____	_____
	_____	_____
Telephone:	_____	_____
Facsimile:	_____	_____
Email:	_____	_____

D. Attach a brief history of the CMO and a copy of its most recent annual report.

E. Attach a description of the students served by the CMO, including its mission and targeted geographical area(s).

F. Attach the CMO organizational budget for the fiscal years 2009-10 through 2013-14.

G. Attach audited financial statements (including notes) of the CMO for the last three fiscal years. Please unaudited actuals for fiscal year 2008-09.

H. Attach résumés for key staff of the CMO.

I. Attach the following information for the CMO Board of Directors: Name; Occupation; City of Residence and Term of Office.

J. Attach a narrative describing the CMO's scope and strategic plan for the next three years.

2. PROJECT INFORMATION

Name of the charter school (project facilities) for which this application is being submitted: Enter school name _____

2.1. *Project Facility Information*

- A. Overview of project: Include size and type of facility, targeted students, etc.
- B. Project Address, if known: Provide exact address _____
- C. School District where project is located: Enter name
- D. Project location is within the chartering authority's boundaries? Yes No
- E. Project Type: New Construction Renovation
- F. Anticipated date instructional operations will begin at project location: Date

2.2. *Project Funding Information*

- A. Anticipated total Project Cost:
- B. Amount of QSCB borrowing authority requested:
- C. Anticipated date funding proceeds will be needed:
 - 1. Design Costs: Estimated Timing and Amounts
 - 2. Site Acquisition Costs: Estimated Timing and Amounts
 - 3. Construction: Estimated Timing and Amounts
 - 4. Preliminary Sources of Funds

Sources

Loan Amount (QSCB borrowing authority request)	\$
Subordinate Financing	
Equity	
Other	
Total Sources	\$

3. CHARTER INFORMATION

3.1. *Charter and Oversight Information*

- A. Identify chartering authority and contact: _____

Primary Contact

Secondary Contact

Name: _____
 Address: _____

 Telephone: _____
 Facsimile: _____
 Email: _____

B. Date of initial charter, renewal(s), if applicable? _____

C. First full school year of instructional operation? _____

D. What date will current charter expire? _____

E. Has the organization/school ever had a charter:

Revoked Denied Denied Renewal Not Applicable

If yes, provide description of the nature/cause of revocation, denial or non-renewal

3.2. Charter Organizational Information

A. Attach copy of Articles of Incorporation and Corporate Bylaws (or documentation of the charter school's current legal status in the event the charter school is not incorporated).

B. Attach copy of the charter agreement (petition), approved charter amendment, and/or contract, if applicable.

C. If the charter is due to expire within 12 months of application submission, attach description of plan for charter renewal and include any available information regarding the charter authority's support for charter renewal. Type description here or provide as an attachment.

D. Attach a copy of the charter school's most recent business plan and/or strategic plan. For expansion projects, staffing plans also must be submitted.

E. Provide historical, current and projected enrollment for fiscal years 2006-07 through 2013-14, and the charter school's waiting list, if applicable.

F. Describe the charter school's targeted student population, and provide information regarding student-to-student retention percentages for all years of charter school's operation.

G. Did the school achieve API growth targets in the following fiscal years: 2005-06 ; 2006-07 ; 2007-08 ; and 2008-09 . If not, please explain. _____

H. Did the school meet AYP in the following fiscal years: 2005-06 ; 2006-07 ; 2007-08 and 2008-09 . If not, please explain. _____

I. Attach a list of the following information for the charter school's Board of Directors: Name, Occupation, City of Residence, and Term of Office.

- J. Attach a list of key staff members (Chief Executive Officer, President, Operations Manager, Chief Financial Officer, Principal, etc) and include resumes.

4. FINANCIAL INFORMATION

4.1. Financial Information

- A. Attach the charter school’s adopted budget for fiscal year 2009-10.
- B. Include the charter school’s projected income statements for fiscal year 2010-11 through fiscal year 2013-2014. Include written assumptions.
- C. Provide the charter school’s audited financial statements, including notes, for the last three fiscal years (or two if the charter is in its third year of operation) plus unaudited actuals for fiscal year 2008-09.
- D. Where a charter school has obtained third-party credit enhancement, submit all financial information related to the form of enhancement and the guarantor.
- E. Provide documentation of anticipated income from third party entities, including but not limited to foundations, philanthropists, governmental entities, etc.

4.2. Existing Liabilities

- A. Please complete the table below with information on any borrower’s loans or lines of credit (as of the date you complete the application). If the Borrower plans on incurring any additional debt by July 1, 2010 not disclosed below, please describe separately.

Lender	Original Amount	Outstanding Balance	Interest Rate	Closing Date	Maturity Date	FY 2009-10 Principal + Interest
1.	\$	\$	%			\$
2.	\$	\$	%			\$
3.	\$	\$	%			\$
4.	\$	\$	%			\$
5.	\$	\$	%			\$

5. REQUIRED CERTIFICATIONS

5.1. Qualified by virtue of use of bond proceeds

- A. For purposes of the application, 100 percent of the proceeds of the Qualified School Construction Bond will be used for:
 - 1. Construction of public school facilities;
 - 2. Rehabilitation or repair of public school facilities;
 - 3. Acquisition of land on which public school facilities will be constructed with proceeds of this issuance; or
 - 4. Equipment related to the project(s), constructed or rehabilitated with the proceeds of issuance.
- B. Within six months of date of issuance or loan, the charter school must have entered into contract(s) for use of proceeds equal to ten percent of issuance.
- C. Within three years of the date of issuance or loan, 100 percent of the bond proceeds are to be spent on qualified purposes.

5.2. Davis-Bacon Act

- A. All laborers and mechanics employed by contractors or subcontractors on projects funded by Qualified School Construction Bond proceeds shall be paid wages and fringe benefits at rates not less than those prevailing on similar projects in the locality.

5.3. Prohibition on Financial Conflicts of Interest

- A. Applicable State and local law requirements governing conflicts of interest must be complied with in respect to this issue, and if additional conflict of interest rules are imposed by Internal Revenue Service regulation, such additional rules must also be satisfied with respect to the issue.

5.4. Completion Report

- A. At the conclusion of the project(s) a completion report must be submitted to the CSFA [and the CDE]. Random audits of borrowers may be conducted.

5.5. Unused Authorization

- A. Subject to CSFA's sole discretion, any authorization to borrow QSCB proceeds is contingent on the issuance of the QSCBs by [March 31, 2010], after which time the authorization expires and CSFA will give the authority to another qualified applicant.