

California School Finance Authority
Qualified School Construction Bonds
Borrowing Authority Parameters and Application

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). Since 2009, California received more than \$1.42 billion in “volume cap” allocation (not including direct allocations to large local educational agencies) for the issuance of QSCBs. Of this amount, approximately \$141 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.

CSFA is now accepting new applications from charter schools pursuant to an open filing period adopted by the CSFA Board in July 2010, and the Program Parameters detailed below. Details regarding the QSCB parameter also can be found in Section 12001.6 of the Education Code.

QSCBs offer bond issuers the ability to sell bonds that confer a federal income tax credit to the holder or, the issuer may elect to issue fully taxable bonds and receive a federal direct subsidy payment equal to the lesser of the interest actually due and 100% of the rate applicable for Qualified Tax Credit Bonds (including QSCBs). QSCB 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 federally subsidized loan from capital markets investors. Although the final maturity of the loan may vary slightly, it typically is limited to approximately 15 to 17 years.

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.

CSFA will issue QSCBs on behalf of successful applicants that best meet the program criteria. 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. 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 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 “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.

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 applicant has completed at least three full school years of instructional operation 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.
- If an applicant uses any federal tax credit bond volume cap in conjunction with a bond that will serve as a local match for purposes of the Charter School Facilities Program established by Section 17078.52, the applicant, in addition to the requirements of this section, shall comply with all of the requirements of the Charter School Facilities Program.

Borrowing Authority Amounts

- Maximum of \$25 million per project

Application Time Line and Priority

- Applications are accepted by CSFA on an on-going basis.
- 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, 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 a date specified in, after which time the authorization expires and CSFA may give the authority to another qualified applicant.

Fee Schedule

- The Authority has adopted the following fees that will apply to all participating parties for stand-alone or pooled bond or note financings:

Application Fee: The application fee will be payable upon the submission of an application for financing through the Authority. The application fee will offset the cost of staff time reviewing the application and preparing a recommendation for board approval. This fee is nonrefundable.

Issuance Fee: This fee will be charged to a borrower based on the par amount of the debt issuance to offset the cost of staff time executing the financing. This fee will be paid out of bond proceeds at the time a financing is closed. The applicant also shall reimburse the Authority for all reasonable and necessary out of pocket expenses which the Authority may incur at the applicant's request and all other expenses direct or indirect, properly allocable to the proposed financing. Unless paid out of the proceeds of the bonds issued, all fees for a particular proposed financing shall be paid by the applicant and deposited in the Authority Fund.

Annual Administration Fee: The annual administration fee is charged annually to the borrower and paid to the Authority to offset the cost of monitoring the bond financing, including the filing of required disclosure documents.

Bond Financing	
Fee	Amount
Application Fee	\$1,500
Initial Fee (new and refunding debt)	0.15% of par amount
Annual Administration Fee	0.02%, minimum \$500

Other Expenses: The applicant also shall reimburse the Authority for all reasonable and necessary out of pocket expenses which the Authority may incur at the applicant's request and all other expenses direct or indirect, properly allocable to the proposed financing. Such fees may include but are not limited to, Issuer Counsel Fees, STO Agent for Sale Fees, and Financial Advisor Fees. Unless paid out of the proceeds of the bonds issued, all fees for a particular proposed financing shall be paid by the applicant and deposited in the Authority Fund.

**Qualified School Construction Bonds
Applicant Agreement and Certification**

The applicant hereby makes application to the California School Finance Authority (Authority) for the purpose of determining whether the applicant is eligible for Qualified School Construction Bonds (QSCB's).

The applicant represents that it has read and understands the provisions in Senate Bill 2560 that pertain to charter school facilities. The applicant acknowledges that all materials and requirements are subject to change by enactment of state legislation.

The applicant understands that it may be required to return all or a portion of the QSCB's including any investment earnings if the applicant fails to use the funds as approved. 100% of available project proceeds must be used for the construction, rehabilitation, or repair of a public school facility, or for the acquisition of land on which such a facility is to be constructed with part of the proceeds of such issue. The applicant issuing the bonds must enter into contract to spend at least 10% of the proceeds within six months of issuance, and must spend 100% of proceeds within 3 years or redeem the bonds. If not, the applicant will be required to return all QSCB funds and any investment earnings if the Authority cannot determine the associated larger construction project has been completed, based on timelines provided within the application. QSCB funds shall only be used in the manner described in the application.

The applicant understands that all project and financial records are subject to audit and inspection by the Authority and the Bureau of State Audits.

The applicant certifies that it has either disclosed all legal information or has no legal information to disclose.

The applicant agrees to notify the Authority in writing at the time of project completion with evidence of completion included.

The applicant agrees to provide all documents and information required by law and meet all necessary requirements and deadlines prior to the release of any funds.

The applicant agrees to immediately notify the Authority of any material change to the charter school's enrollment, student performance, charter status, legal status, or financial condition that occurs between the time of application and when the financing has been received and approved.

Projects funded with the bonds must comply with all ARRA provisions including the Davis-Bacon Fair Labor Act governing federal prevailing wage requirements and whistle-blower protection.

For any transactions that take place after June 2011, the underwriter(s) selected by the borrower will be required to certify in writing that it is in compliance with the provisions of the Iran Contracting Act of 2010 (Public Contract Code section 2200, et seq.). Specifically, the selected firm will be required to certify that it is not on the then current list of persons engaged in investment activities in Iran created by the California Department of General Services pursuant to Public Contract Code section 2203(b) or, in the alternative, should otherwise be eligible to perform underwriting services for the State of California pursuant to Public Contract Code section 2203(c). Please note that if a firm claims the section 2203(c) exemption, additional findings by the CSFA are required and will be made solely at the discretion of CSFA. Furthermore, to the extent the underwriting firm is changed after the application is submitted, or new underwriting firms are retained by the borrower, the certification requirement must be met at the time such selection is made. The certification required pursuant to the Iran Contracting Act of 2010 must be provided at the earliest possible time.

The applicant understands that the Authority may verify the information provided and analyze materials submitted as well as conduct its own investigation to evaluate the application. The applicant acknowledges that the information submitted to the Authority in this application or supplemental thereto may be subject to the Public Records Act or other disclosure. The applicant understands that the Authority may make such information public. In carrying out the development and operation of the proposed project, the applicant agrees to comply with all applicable federal and state laws, and will abide by all Authority program requirements. The applicant agrees to hold the Authority, its members, officers, agent, and employees harmless from any matters arising out of or related to the applicant's project.

The applicant declares under penalty of perjury that the information contained in the application, exhibits, attachments, and any further or supplemental documentation is true and correct to the best of its knowledge and belief. The applicant understands that misrepresentation may result in the cancellation of the application and other actions, which the Authority is authorized to take.

Signature of Applicant's Senior Official: _____

Print Name and Title: _____ Date: _____

**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. If the applicant is working with an underwriting or banking firm, please provide the following contact information. Note: Financing team participants are subject to approval by the Authority and the State Treasurer's Office (STO). The Authority and the STO may require additional participants to be added to the financing team.

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

I. The charter school provides the level of classroom based instruction as outlined in Education Code Section 47612.5 (e)(1) Yes:

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.
- 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

F. Legal Status Questionnaire (LSQ) – Please complete the attached LSQ and have two individuals sign

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 2014-15, 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 and 2009-10 . If not, please explain.

- H. Did the school meet AYP in the following fiscal years: 2005-06 ; 2006-07 ; 2007-08 ; 2008-09 and 2009-10 . 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 2010-11 and the charter school's second interim report, including P-2 attendance data.
- B. Include the charter school's projected income statements for fiscal year 2011-14 through fiscal year 2014-15. Include written assumptions.
- C. Provide the charter school's audited financial statements, including notes, for the last three fiscal years.
- 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 December 31, 2011, after which time the authorization expires and CSFA will give the authority to another qualified applicant.
- B. The CSFA shall allocate reverted QSCB authorization as it becomes available and until all of the authorization is issued.

LEGAL STATUS QUESTIONNAIRE

1. Disclose material information relating to any legal or regulatory proceeding or investigation in which the applicant/borrower/project sponsor is or has been a party and which might have a material impact on the financial viability of the project or the applicant/borrower/project sponsor. Such disclosures should include any parent, subsidiary, or affiliate of the applicant/borrower/project sponsor that is involved in the management, operation, or development of the project.

Response: _____

2. Disclose any civil, criminal, or regulatory action in which the applicant/borrower/project sponsor, or any current board members (not including volunteer board members of non-profit entities), partners, limited liability corporation members, senior officers, or senior management personnel has been named a defendant in such action in the past ten years involving fraud or corruption, or matters involving health and safety where there are allegations of serious harm to employees, the public, or the environment.

Response: _____

Disclosures should include civil or criminal cases filed in state or federal court; civil or criminal investigations by local, state, or federal law enforcement authorities; and enforcement proceedings or investigations by local, state or federal regulatory agencies. The information provided must include relevant dates, the nature of the allegation(s), charters, complaint or filing, and the outcome.

Signatures on behalf of (school name): _____

I/We attest that we have provided full disclosure *as indicated* in response to the items #1 and #2 above.

Signature of Principal, CEO, or Lead Administrator

Date

Print or Type Name:

Signature of President or Chair of Governing Board

Date

Print or Type Name