

## MEMORANDUM

Staff Summary No. 6

**Date:** March 26, 2020

**To:** Members of the California School Finance Authority

**From:** Katrina M. Johantgen, Executive Director

**Subject:** Approving the Project Acceleration Note and Credit Enhancement Alternatives (CDFA #84.354A) Award in an Amount Not to Exceed \$800,000 to the Friends of MIT Academy, for the benefit of MIT Academy in Vallejo County, California, Resolution No. 20-08

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**Background:** The California School Finance Authority (Authority) received a grant award in October 2017 under the U.S. Department of Education's Expanding Quality Charter Schools Program – Grants for Credit Enhancement for Charter School Facilities (CFDA # 84.354A). With the \$8.0 million grant, the Authority implemented the Project Acceleration Note and Credit Enhancement Alternatives (PANACEA) Program (Program). This federal grant, authorized under Title V, Part B, Subpart 2 of the Elementary and Secondary Education Act, as amended by the No Child Left Behind Act of 2001, provides grants for the purpose of providing credit enhancement to facilitate the financing of the purchase, construction, and/or renovation of facilities for California public charter schools.

Since receiving the grant and developing program guidelines, the Authority has worked with lenders and schools that have received an apportionment through the state's Charter School Facilities Program (CSFP). The Authority's goal with the PANACEA grant is to leverage the federal funds to enhance predevelopment costs for schools in CSFP. Enhancing loans to CSFP schools allows the program funds to recycle to additional CSFP projects as schools convert to final apportionment and receive state funding for 100% of project costs, thus allowing schools to pay off predevelopment loans.

**Application:** On March 9, 2020, the Authority received an application for a Program award from Friends of MIT Academy (Friends), for the benefit of MIT (Mare Island Technology) Academy, a CSFP recipient. Authority staff evaluated Friends' application and found the school to be eligible for an award not to exceed \$800,000. The total grant amount will be finalized once the total loan amount and debt service schedule is finalized.

According to information provided by the lender, Umpqua Bank, the enhancement grant is critical to Friends securing the bridge loan of \$1.5 million to acquire modular classrooms. According to the lender, concerns are: 1) the land related to the project is leased, not owned therefore weakens the pledge; 2) Friends is a smaller organization with limited assets; and 3) portable classrooms are difficult to use as collateral. The credit enhancement grant's additional security will enable this loan to be underwritten. Without the enhancement grant, Umpqua would not be underwriting the loan to MIT.

**Recommendation:** Staff recommends that the Board adopt Resolution No. 20-08, awarding the Friends of MIT Academy, for the benefit of MIT Academy, an award amount not to exceed \$800,000. This amount will be finalized once the total loan amount and debt service schedule is generated.