

**Minutes
CALIFORNIA SCHOOL FINANCE AUTHORITY**

**Meeting of the Board
Wednesday, April 22, 2009
10:30 a.m.
915 Capitol Mall, Conference Room 110
Sacramento, California 95814**

Deputy State Treasurer Patricia Wynne, serving as chair, called the meeting to order.

Roll Call

Members Present: Patricia Wynne, designated alternate for Bill Lockyer, State Treasurer
Kathleen Moore, designated alternate for Jack O'Connell,
Superintendent of Public Instruction
Jeannie Oropeza, designated alternate for Michael Genest, Director
of Finance

Staff Present: Katrina Johantgen, Executive Director

With a quorum present, Patricia Wynne, Chair, called the meeting to order.

Approval of Minutes

The minutes of the November 17, 2008 Authority meeting were adopted as submitted.

Executive Director's Report

State Charter School Facilities Incentive Grants Program: Ms. Johantgen provided an update regarding the Federal Grant, stating that over 90 applications have been received for the fifth and final funding round of the Federal Grant program. There is more than \$10 million available for this last round, which is due largely to awardees falling out from previous rounds. She informed the members that notice and application materials for this round had been emailed to all charter schools using a current address list obtained from CDE. She confirmed that the application process has been opened up to provide better flexibility to the applicants by allowing the applications to be accepted by either mail or hand-delivery in either CSFA's Sacramento or Los Angeles offices by 5:00 p.m. on the April 20, 2009 application deadline date. Despite these efforts, a handful of applications were still received after the deadline.

Ms. Johantgen informed the members that information regarding the number of schools who applied for construction, purchase, or rehabilitation projects vs. debt service and on-going lease costs would be available at the next board meeting.

Pending Projects: Ms. Johantgen reported that staff is working with a number of educational management organizations and charter management organizations on a revenue deferral bridge financing program. The State is deferring schools' April revenue payments to the Fall, so staff is working with schools to see if there is indeed a demand for this type of bridge financing.

In response to a board member's question, Ms. Johantgen responded that the financing would originate through note sales that CSFA would structure as a RAN (revenue anticipation note). The schools' State-funding would then be intercepted, as allowed by the intercept mechanism structured in CSFA's statutes, and the investors would be paid back. It would be structured as a pooled financing.

Ms. Johantgen further advised that staff is in discussion with the credit rating agencies regarding the different legal and credit structures of charters and CMOs versus individual schools. It may not be cost effective for some schools to use CSFA's financing if the schools' ratings are too low. In such cases, it would make sense for the schools to seek alternative financing, by using a line of credit or other financing which is easier to access, but perhaps at a higher borrowing rate.

Ms. Oropeza added that there is an alternative option for any school or school district which cannot avail themselves of any type of loan, which would be to file a waiver with the Department of Finance.

Ms. Johantgen reported to the members that CSFA staff has been approached by a group of investment bankers who have structured a deal through qualified school construction bonds, under part of the Federal American Recovery and Reinvestment Act. This group is working with staff from CSFA, CDE, and OPSC to define what California is going to do with its 40/60 percent allocation for school districts. CSFA staff is looking at perhaps doing a pooled issuance of those bond funds. It also was mentioned that it would require legislation to clarify who would administer these funds.

Ms. Johantgen informed the members that due to the State's recent GO (General Obligation) bond sale of just over \$6 billion, some funds would be trickling down to the Prop 1D projects. CSFA staff and Barbara Kempmeiner, of OPSC, are working to identify which Prop 1D schools will be eligible to get funding, which will then be coming back to the board for financial soundness determinations. Ms. Johantgen will keep the members informed of incoming information.

It was also mentioned that there are some unneeded CSFP funds from apportionments made under Prop 47 and Prop 55. The State Allocation Board is scheduled to meet this afternoon to determine what will become of this surplus funding.

Ms. Johantgen concluded her report by informing the board that the funding recommendations for the Federal Grant Program would be coming before the board on June 30, 2009.

Resolution 09-01 – Approving determination of Today’s Fresh Start Charter School’s financial soundness for purposes of an advance apportionment under the Charter School Facilities Program.

Today’s Fresh Start Charter School (TFSCS) was found to be financially sound in December 2004 and received a preliminary apportionment of \$12,605,650 in February 2005. In April 2006, TFSCS received an advance apportionment of \$1,319,797 for project design costs. TFSCS obtained two short-term loans during 2007-08 totaling \$6,197,071 for purposes of site acquisition for the CSFP-funded project, with the intent of discharging the loans upon receipt of the advance apportionment. TFSCS is now requesting an advance apportionment of \$6,006,662 for site acquisition costs.

Ms. Johantgen reported to the members that Today’s Fresh Start Charter School has not yet provided sufficient documentation needed to be found financially sound for purposes of an advance apportionment of \$6,006,662 for site acquisition. There are several pending issues related to the uncertain status of TFSCS’ charter and the planned use of the CSFP-funded facility. The members were also advised of staff’s concerns related to trends in low API (Academic Performance Index) scores and unmet AYP (Adequate Yearly Progress) criteria, and low year-to-year retention rates of 81 percent and 85 percent for 2006-07 and 2007-08, respectively. Staff recommended that a determination of financial soundness be delayed until this summer when the API data for this school year is released and until TFSCS’ board members make a final decision regarding the charter authorizer for the CSFP-funded facility.

The school’s chartering authorizer, the Los Angeles County Office of Education (LACOE), has advised CSFA staff the school is not in compliance with its charter and has avoided any response regarding the school’s good standing. LACOE had voted to revoke the charter in December 2007. The revocation was later reversed and reinstated with all rights and privileges by court order of the Superior Court of Los Angeles. The school then began the process of applying for an advance apportionment under CSFP.

Another concern relates to the discovery a week earlier that TFSCS had been awarded a charter by the Inglewood Unified School District in January 2009, which included the proposed CSFP-funded facility.

Ms. Kristin Smith, STO Legal Counsel, advised when staff contacted TFSCS to ask about the Inglewood charter, school representatives advised that TFSCS’ governing board had not yet decided what to do with the second charter. The proposed CSFP-funded facility is identified in the Inglewood charter as a K-6 school site to serve 338 students. The projections received from TFSCS and used by staff to evaluate financial soundness are based on a K-12 facility to serve 900 students.

Dr. Clark Parker, TFSCS board member, spoke in support of TFSCS and said they have met every projection provided for CSFP. Dr. Parker advised TFSCS needs a county-wide charter because of its plans for school sites in three different districts: Compton, Inglewood, and Los Angeles. He stated the charter petition to Inglewood Unified School District was

submitted at the request of a member of the IUSD board. The school submitted the application without any expectations and has not submitted a request to the State for a charter number. Dr. Parker stated TFSCS has made a decision to go forward with the LACOE charter and is not planning to go forward with the Inglewood charter.

Dr. Parker explained the urgency for their request that the CSFA board members not delay in determining the school is financially sound is because they are running out of time to meet the State's February 2010 deadline to receive all CSFP advance and final apportionments. In response to a board member's question, Dr. Parker clarified that the other reason for the urgency is due to the timing of the bridge loans incurred when the property for the CSFP-funded facility was purchased.

Mr. Juan Mireles, of the Office of Public School Construction, explained that a determination of financial soundness is needed before the school can submit an eligible request to OPSC for release of funds. Additionally, as State infrastructure funds become available, the funds are released to eligible projects in the order the requests were received.

Mr. Michael Amir, TFSCS legal counsel, spoke in support of the school and emphasized the school is financially sound. Mr. Amir pointed out the school's location on Crenshaw Boulevard in Los Angeles and the stability of the student population in this neighborhood cannot be compared to a suburban school.

Ms. Yvette Brown, Fiscal Consultant, spoke in support of TFSCS and confirmed the delay in determining the school is financially sound is keeping the school from submitting an application for funding to OPSC. She also emphasized the school's increasing enrollment despite the transient nature of the surrounding neighborhoods.

Ms. Gail Wyndham, speaking as an educator, admitted the test scores were not what anyone would have been liked, however, she described reforms that have been recently implemented and said there has been real progress.

Ms. Moore advised that the student performance of charter schools is viewed only for its impact on financial soundness. TFSCS has been in operations since 2003, and has been going through the process to receive the CSFP funds. Ms. Moore agreed that there is a sense of urgency due to the first in first out (FIFO) process of allocating funds when they become available. This is a time sensitive issue and the school is owed a decision.

Ms. Wynne agreed the school should receive a decision soon, and expressed concern regarding the school's test scores, on-going charting authorizer conflict, and the issue of the new charter.

Dr. Jeanette Parker, TFSCS superintendent/administrator, spoke on behalf of the school and emphasized the progress that has been made, and will be made.

Mr. Michael Kremer, CSFA consultant with First Southwest, recommended the board members delay making a determination until the 2008-09 test scores are released this

summer for confirmation of an improvement in student performance due to its influence on TFSCS's financial soundness.

Ms. Moore confirmed her statement that the board should deliver a decision regarding the school's financial soundness. If there is additional information that could affect the school's financial soundness, then it needs to be presented and reviewed.

Ms. Wynne suggested staff regroup and work with TFSCS to work out a different scenario where a recommendation may be presented to the members for action within the next few weeks.

The members advised that staff's recommendation regarding notification to OPSC of a non-decision was unnecessary and that notification of any board action should wait until after a second meeting and the board has rendered its decision.

Resolution 09-02 – Approving determination of College Ready Academy High #8's financial soundness for purposes of an advance or final apportionment under the Charter School Facilities Program

The resolution to make a determination regarding College Ready Academy High #8's financial soundness was withdrawn prior to the meeting and will be brought before the board at a future meeting.

Public Comment

There being no other public comments of any other business to conduct, the meeting was adjourned.

Respectfully submitted,

Katrina Johantgen
Executive Director