

CALIFORNIA SCHOOL FINANCE AUTHORITY

**Meeting of the Board
Tuesday, July 30, 2009
10:45 a.m.**

**915 Capitol Mall, Conference Room 587
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
Tom Sheehy, 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 June 30, 2009 Authority meeting were adopted as submitted.

Executive Director's Report

State Charter School Facilities Incentive Grants Program:

Ms. Johantgen advised the members on the status of the federal grant. One recent development concerned the funding for the two final subgrantees to receive a grant award in June 2009. A portion of the funds available in fiscal year 2008-09 for Round 5 subgrantees had been previously encumbered for alternates from prior rounds and could not be encumbered for the Round 5 subgrantees. Staff is working with STO's accounting and budgets units to identify any funds from prior years that may be disencumbered and then re-encumbered for these subgrantees. This situation partially came about due to subgrantee schools losing eligibility or moving to less costly district facilities some time after the award date, and then the alternate subgrantee schools receiving an award of the newly available funds in a subsequent fiscal year. The resulting delay to two of the Round 5 subgrantees is being rectified and funding will occur shortly as a reallocation of funds to be carried over is being written into California's 2009-10 budget act.

Ms. Johantgen stated that in the event California is awarded funding for an additional five-year program by the U.S. Department of Education, staff will work with STO staff to identify when funds should be disencumbered and re-encumbered to ensure all available funding is

appropriately carried forward to each fiscal year, which may involve the submission of an annual budget change proposal.

Ms. Wynne inquired about the application status regarding the new five-year grant offered by the U.S. Department of Education. Ms. Johantgen stated that the review of applications is taking place through the end of August 2009 and that September would be the earliest release of any award information.

Ms. Johantgen also advised the members of the status of the federal requirement that all grant funds be drawn down no later than September 2012. To ensure all eligible funds are drawn down on schedule, staff is notifying all subgrantees of the need to stay on schedule by documenting continued eligibility semi-annually in August and February of each year during the grant term. Notice is being sent informing all current subgrantees of any required documents and pertinent information that will need to be submitted by the August 28 deadline to ensure timely processing of eligible awards and in order to avoid forfeiture of any disbursements. Any funds that become available will immediately be processed so that the funds are appropriately disencumbered and then re-encumbered for an alternate subgrantee.

Other Items:

Ms. Johantgen informed the board members that the director of Today's Fresh Start Charter School, Dr. Jeanette Parker, has asked that the board members be advised of some preliminary student performance results not yet released by the California Department of Education (CDE). Dr. Parker advised this involves positive news regarding an improved API score of up to 40 points. These results are to be released at end of August.

Ms. Johantgen also informed the members of an upcoming Budget Change Proposal deadline. As a result, staff is reviewing all of its resources to accommodate these future demands. Currently, a vacant analyst position is available in the Los Angeles office as Andres Hermsillo is leaving to attend law school. The new analyst will be assigned to work on CSFP as well as the Federal Grant.

Qualified School Construction Bond Program:

Ms. Johantgen briefly advised the members on the status of QSCBs, a new program instituted through the America Reinvestment and Recovery Act of 2009, which has allocated approximately \$73 million dollars in federally subsidized tax credit bonds for new construction or renovation of charter school facilities. This program will be discussed further along on the agenda; however, Staff is working with the State Attorney General's office in Los Angeles who will serve as issuer's counsel, and with staff in the STO's Public Finance Division to develop a team of underwriters to assist applicants who come in without a financing team.

Ms. Johantgen stated that there has been much interest in program. Staff has been contacted by project developers and other parties who are interested in participating in this project. There will not be a specific maximum award amount; however, for marketing purposes a \$2 million minimum is set.

Resolution No. 09-08 - Approving Determination of The Chime Institute's financial soundness for the purposes of an advance or final apportionment under the Proposition 55 Funding Round of the Charter School Facilities Program

This item was withdrawn from the agenda prior to the meeting.

Resolution No. 09-09 - Approving Determination of College Ready Academy High #8's financial soundness for the purposes of an advance apportionment under the Prop 1D Funding Round of the Charter School Facilities Program

On May 28, 2008, the State Allocation Board awarded College Ready Academy High #8 (CRAH8) a preliminary apportionment of \$33,050,312 through the Charter School Facilities Program (Program). CRAH8 is now seeking an advance apportionment in the amount of \$3,009,255 for design costs.

Ms. Johantgen advised that CRAH8 was found to have maintained its financial soundness for purposes of an advance apportionment in November 2008. However, it had been more than six months and the school had not yet received its advance apportionment. Therefore, the Authority is compelled to provide the Office of Public School Construction (OPSC) with a current determination of financial soundness. Staff conducted a subsequent analysis of CRAH8 in light of the time lapse of more than six months between the November determination and the school's current status regarding their request for funding.

Ms. Johantgen confirmed CRAH8 met all Program eligibility criteria and was been found to have maintained a financially sound status for purposes of an advance apportionment under the Program. The school expects to begin instructional operations with the 2009-10 school year. By occupancy of the Project, targeted for 2011-12, total enrollment was projected at 425 students in grades 9-12.

Projected debt service coverage levels for the school were identified as 85.9% and 83.9% for 2012-13 and 2013-14, respectively. Debt service coverage, with the Alliance for College Ready Public Schools (Alliance) serving as co-borrower, increased to 171.3% and 185% for 2012-13 and 2013-14, respectively. Projections included contributions from private sources for 2009-10, but none were included thereafter when the CSFP payment would be required to be met. Projected ratios of CSFP payments to total revenues were high at 20.0% in 2012-13, and 20.4% in 2013-14.

Staff recommended that the members find CRAH8 be found financially sound for purposes of an advance apportionment for design costs and approve Resolution No. 09-09. Additionally, given the school's reliance on the Alliance to meet debt service coverage, staff recommended that Alliance execute a co-borrower or guarantor agreement with CRAH8 prior to any fund release.

It was moved, seconded, and passed unanimously to adopt Resolution No. 09-09.

Resolution No. 09-10 - Approving Determination of Oakland Unity High School's financial soundness for the purposes of an advance apportionment under the Prop 1D Funding Round of the Charter School Facilities Program

On May 28, 2008, the State Allocation Board awarded Oakland Unity High School (OUHS) a preliminary apportionment of \$19,836,428 through the Program. OUHS is now seeking an advance apportionment in the amount of \$1,323.643 for design costs.

Ms. Johantgen advised OUHS has projected debt service coverage ratios of 144.0% and 162.8% for 2012-13 and 2013-2014, respectively. OUHS will not rely on private contributions to meet its CSFP obligation. The CSFP payment would represent 16.2% of projected revenues in 2012-13 and 13.9% in 2013-14. These levels exceed the preferred maximum of 15%.

OUHS met all AYP criteria for the past three years. Although OUHS did not meet its API school-wide growth target for 2006-07, it did meet its API school-wide growth target for 2005-06 and 2007-08. Although OUHS experienced a drop in student enrollment for the current 2008-09 academic year, it has historically shown stability in its enrollment. In addition, OUHS reported a current waiting list of 49 potential students. OUHS has projected its enrollment to grow to 420 students during the third year of project occupancy in 2013-14. This is approximately double its current enrollment. OUHS failed to meet its API school-wide growth target in 2006-07. In addition, based on its API base score of 595 for 2007-08, out of a possible 10, OUHS has a statewide rank of 2 and a rank against similar schools of 1. In the 2008-09 academic year, OUHS reported it adopted new strategies to improve standards-based-teaching after participating in the ZOOM Project.

Staff recommended that the members determine that Oakland Unity High School be found financially sound for purposes of an advance apportionment for design costs.

It was moved, seconded, and passed unanimously to adopt Resolution No. 09-10.

Resolution No. 09-11 - Approving determination of Yuba River Charter School's financial soundness for purposes of an advance apportionment under the Prop 1D Funding Round of the Charter School Facilities Program

On May 28, 2008, the State Allocation Board awarded Yuba River Charter School (Yuba River) a preliminary apportionment of 8,502,512 through the Program. Yuba River is now seeking an advance apportionment for design costs.

Yuba River requested funding for the purpose of building a larger school facility to allow for growth and is considering sites within the same area of Nevada County where it is currently located. The new school is intended to house approximately 270 students in grades Kindergarten through eighth.

Ms. Johantgen advised Yuba River's financial projections indicated an ability to meet the annual lease payments, as evidenced by the debt service coverage ratios of 128.5% and 122.9% projected for 2012-13 and 2013-14. With CSFP payments expected to average 11.6% of projected revenues, staff believed the CSFP obligation would not significantly reduce the school's flexibility to fund unforeseen costs during the term of repayment. Yuba River was reliant on contributions and fundraising to meet the minimum 100% debt service coverage.

Yuba River failed to meet all applicable AYP requirements and its school wide target growth rate in 2007-08, but had met all AYP requirements from 2004-05 through 2007-08. Although Yuba River's statewide rankings increased from 2006-07 to 2007-08 (from 4 out of 10 to 6 of out 10), current statewide rankings subsequently dropped to 2 of 10. The drop in rankings has been attributed to teachers whom are no longer with Yuba River.

Staff recommended that the California School Finance Authority (CSFA) Board determine that Yuba River Charter School be found financially sound for the purposes of an advance apportionment for design costs.

It was moved, seconded, and passed unanimously to adopt Resolution No. 09-11.

In a discussion regarding Resolution No. 09-12, the members discussed amending the resolutions for CRAH#8, OUHS, and Yuba River to include approval for an advance apportionment for site acquisition as well as the requested advance apportionment for design costs. This action would assist the schools by ensuring the board actions taken today concerning each school's financial soundness will be valid for six months and reduce extra work on the school's behalf should they need to request an advance apportionment for site acquisition within the next six months as current guidelines allow.

It was moved, seconded, and passed unanimously to amend Resolution Nos. 09-09, 09-10, and 09-11, determining that College Ready Academy High #8, Oakland Unity High School, and Yuba River Charter School, respectively, be found to have maintained financial soundness for purposes of advance apportionments for both design costs and site acquisition.

Resolution No. 09-12 - Approving Policy Recommendation Regarding Guidelines for a Current Financial Soundness Determination

Ms. Johantgen provided an overview of the process the Authority and the Office of Public School Construction have been following concerning updates of each charter school's finding of financial soundness under the Charter School Facilities Program (Program). The Program is designed so that charter schools that received a Preliminary Apportionment have approximately four years to begin building the approved project facilities. Any time a school requests a fund release for either advance or final apportionments; the Authority must determine whether they have maintained their financial soundness for purposes of the Program.

The requirement for a current finding of financial soundness is based on OPSC's regulations, Section 1859.167 (a), which states "Prior to the Board providing a Final Charter School Apportionment, the Charter School will need to have a current Financial Soundness certification from the Authority."

Due to the current situation with California's and the global financial markets, California's ability to raise funds for infrastructure projects has been affected and current bond proceeds are insufficient to fund all projects awaiting funds. During this time, OPSC has continued to accept applications for fund releases so that projects can queue up in date order to begin receiving funds once they become available. This new situation is calling into question the

length of time the Authority's financial soundness determination should be considered "current."

At its June 30, 2009 meeting, Authority members directed staff to work with staff at OPSC to develop benchmarks or guidelines to define current as the term is used when addressing a school's "current" financial soundness.

Ms. Johantgen advised that staff was recommending the Authority's determination related to a school's or operator's financial soundness be in place for six months from the date of the approval. Following a determination of financial soundness, Authority staff will provide written notification to OPSC certifying the board's determination as well as provide an expiration date of the determination. The notification also will include any additional or extenuating criteria or requirements for fund release contained in staff's finding and the resolution approved by the Authority members.

Subsequent financial soundness determinations outside of the six-month determination would require board member approval; however, the analysis would, in most cases, be more cursory and less onerous on the school. The depth of the Authority's subsequent analysis would be based on factors that staff highlighted in its findings to members and subject to monitoring by Authority staff, and would require the analysis of updated financial information, charter renewal information, newly-released student performance data, and retention or enrollment information. The level of the Authority's analysis would be directly proportionate to the changes in the described factors. The analysis also would contain new information or changes to the charter school's operations that staff deemed material. Any concerns related to material changes would be contained in all financial soundness recommendations to the board. Given the characteristics of certain situations, staff would outline specific material changes identified as reportable during the six month period. Based on requirements outlined in the Authority's Program regulations, charter schools also have an obligation to notify the Authority of any materials changes to their operations. All such changes also would be considered in any subsequent analysis.

As for those schools whose fund releases are being held up by the state's cash flow dilemma, staff's recommendation called for a new financial soundness review to be performed by the Authority whenever the release request date was more than six months from the Authority's initial determination. The Authority recommended that OPSC be asked to advise Authority staff as soon as OPSC became aware that funds may become available so that a new determination can be made in a timely manner so as not to delay the fund release. Additionally, a school may request a new determination immediately upon the expiration of the six month period.

Staff recommended the Authority members adopt the policy as outlined in the staff memo regarding financial soundness reviews. Staff also recommended the members authorize staff to advise OPSC of the members' decision and request that OPSC executive staff recognize this policy.

It was moved, seconded, and passed unanimously to adopt Resolution No. 09-12.

Resolution No. 09-13 - Approving Recommendation Regarding Charter School Qualified Construction Bond Allocation.

Within the American Recovery and Reinvestment Act of 2009 (ARRA), funding was provided for the construction or renovation of public school facilities through the use of Qualified School Construction Bonds (QSCBs). Approximately \$73 million of QSCB tax credits have been allocated to the Authority for use by California charter schools. The Authority will be responsible for allocating the tax credits to eligible projects and issuing QSCBs on behalf of the borrowers.

Ms. Johantgen presented guidelines/parameters proposed for the administration of the American Recovery and Reinvestment Act of 2009 (ARRA) funds, and recommended the members adopt Resolution No. 09-13 approving these proposed guidelines/parameters as contained in the 2009 Program Parameters. Approval of Resolution No. 09-13 also authorized the Executive Director to begin the application process, including distributing, accepting, and reviewing applications for the program.

It was moved, seconded and passed unanimously to adopt Resolution No. 09-13.

Public Comment

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

Respectfully submitted,

Katrina Johantgen
Executive Director