

## MEMORANDUM

**Date:** October 22, 2009 Staff Summary No. 4

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

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

**Subject:** Resolution 09-15 of the California School Finance Authority Awarding Qualified School Construction Bond Borrowing Authority to Certain Applicants under the Charter School QSCB Program Parameters; and Authorizing the Taking of Necessary Actions in Connection Therewith

---

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). Of California's \$773 million in "volume cap" allocation for the issuance of QSCBs, \$73.525 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.

On July 30, 2009, CSFA solicited requests for applications for an award of QSCB "borrowing authority" from interested charter schools. An online application, along with program parameters, was posted to CSFA's website with a preliminary due date of August 31, 2009 (the application and program parameters were further amended on August 25, 2009 and the deadline was extended to September 14, 2009). By the due date, CSFA had received 28 applications requesting total borrowing authority in the approximate amount of \$200 million. There were two applications that were received after the deadline, and are therefore not considered eligible for an award of bonding authority at this time. After a review of applications, staff recommends that the Board take the actions detailed below.

Staff recommends to the Board that the applicants identified in Table 1 below receive a preliminary award of Qualified School Construction Bond Borrowing Authority ("Borrowing Authority"), in the suggested amounts, at such time as CSFA's Executive Director determines that said applicants meet certain program parameters. All allocations are conditioned upon the applicants' willingness to covenant to pay any necessary, non-contingent rating agency fees

required by CSFA in advance of a an actual bond sale (provided, however, that payment in advance is required by the rating agencies engaged). Moreover, bond ratings must be received no later than February 1, 2010 in order to ensure a successful closing by March 31, 2010. An applicant may be denied a “final” award of Borrowing Authority and forfeit any preliminary award due to a failure to obtain such ratings by the deadline at CSFA’s sole discretion.

**Table 1  
Recommendations for Borrowing Authority**

| <b>Applicant</b>                           | <b>Project</b>                                 | <b>QSCB Request</b> | <b>Suggested Amount</b> | <b>Preliminary Rationale</b>        |
|--|--|---------------------|-------------------------|-------------------------------------|
| HTH Learning                               | High Tech High Chula Vista (K-8)               | \$15,000,000        | \$15,000,000            | FHLB LOC ("AAA")                    |
| Oak Grove Union Elementary School District | Oak Grove Elementary/Willowside Middle Charter | \$2,000,000         | \$2,000,000             | District Credit                     |
| Perris Union High School District          | California Military Institute                  | \$3,000,000         | \$3,000,000             | District Credit                     |
| Rincon Valley Union High School District   | Rincon Valley Charter School                   | \$3,700,000         | \$3,700,000             | District Credit                     |
| Sanger Unified School District             | Sanger Hallmark Middle School                  | \$2,000,000         | \$2,000,000             | District Credit                     |
| Vaughn Next Century Learning Center        | Vaughn g3 Magnet                               | \$3,500,000         | \$3,500,000             | Up to 80% Project Equity and/or LOC |
|  |  | <b>\$29,200,000</b> | <b>\$29,200,000</b>     |                                     |

Apart from the applications received from the six borrowers listed above, staff also received applications for Borrowing Authority from an additional 24 charter schools (see Table 2). Two applications were received after the application submission deadline, and two applications may be deemed ineligible based on the anticipated use of bond proceeds (we are awaiting bond counsel opinion on these two applications). Based on the information submitted in connection with such applications, however, staff does not believe that these borrowers will be able to market and sell QSCBs in the capital markets successfully without making material changes to the existing financing structures. Accordingly, staff recommends that all remaining applicants be afforded the opportunity to work in conjunction with staff and/or third parties to secure credit enhancement or devise alternative strategies for ensuring a marketable borrowing structure. From this pool of applications, staff will present future applications that appear likely to meet certain minimum credit criteria (i.e., investment grade transactions) on a first-come, first-served basis to the Board until such time as CSFA has awarded its entire 2009 QSCB allocation.



**Table 2****Applicants Not Recommended for Borrowing Authority at this Time**

|    | <b>Applicant</b>                             | <b>Project</b>   | <b>QSCB Request</b> | <b>Suggested Amount</b> |
|----|--|--|---------------------|-------------------------|
| 1  | Bay Area Technology School                   | Bay Area Technology School   | \$7,200,000         | \$0                     |
| 2  | California Montessori Project (CMP)          | CMP- Shingle Springs and CMP - Elk Grove   | \$7,600,000         | \$0                     |
| 3  | Celerity Educational Group                   | Celerity Dyad Charter School   | \$15,000,000        | \$0                     |
| 4  | Environmental Charter High School            | Environmental Charter High School  | \$2,000,000         |                         |
| 5  | Granada Hills Charter High School            | Granada Hills Charter High School  | \$11,000,000        | \$0                     |
| 6  | KIPP LA Schools                              | KIPP Raices Academy  | \$7,500,000         | \$0                     |
| 7  | KIPP LA Schools                              | KIPP Academy of Opportunity  | \$4,300,000         | \$0                     |
| 8  | Livermore Charter Learning Corporation       | Livermore Valley Charter School and Livermore Valley Charter Preparatory High School | \$35,000,000        | \$0                     |
| 9  | Magnolia Educational and Research Foundation | Magnolia Science Academy - 3   | \$7,000,000         | \$0                     |
| 10 | Magnolia Educational and Research Foundation | Magnolia Science Academy - 5   | \$3,500,000         | \$0                     |
| 11 | Magnolia Educational and Research Foundation | Pacific Technology School - San Juan   | \$3,600,000         | \$0                     |
| 12 | Magnolia Educational and Research Foundation | Magnolia Science Academy - San Diego   | \$4,800,000         | \$0                     |
| 13 | Magnolia Educational and Research Foundation | Magnolia Science Academy - 2   | \$5,433,000         | \$0                     |
| 14 | Magnolia Educational and Research Foundation | Magnolia Science Academy - 4   | \$3,600,000         | \$0                     |
| 15 | Magnolia Educational and Research Foundation | Pacific Technology School - Santa Ana  | \$3,500,000         | \$0                     |
| 16 | Magnolia Educational and Research Foundation | Magnolia Science Academy - 6   | \$3,600,000         | \$0                     |
| 17 | Magnolia Educational and Research Foundation | Magnolia Science Academy - San Fernando Valley                                       | \$6,200,000         | \$0                     |
| 18 | Natomas Charter School                       | Natomas Charter School   | \$2,431,800         | \$0                     |
| 19 | New Jerusalem Charter Schools                | Delta Charter School   | \$4,459,000         | \$0                     |
| 20 | Riverside Preparatory School                 | Riverside Preparatory School   | \$20,083,655        | \$0                     |
| 21 | The Camptonville Academy                     | The Camptonville Academy, Inc.   | \$2,000,000         | \$0                     |

|    |                 |   |               |     |
|----|-----------------|---|---------------|-----|
| 22 | New City School | The New City School (2/3 of project); Colegio New City (1/3 of project) | \$6,000,000   | \$0 |
|    |                 |   | \$163,807,455 |     |