

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, April 13, 2011

11:00 a.m.

915 Capitol Mall, Room 587
Sacramento, California 95814

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

Roll Call

Members Present: Tricia Wynne, designated alternate for Bill Lockyer, State Treasurer
Kathleen Moore, designated alternate for Tom Torlakson, Superintendent
of Public Instruction
Pedro Reyes, designated alternate for Ana Matosantos, Director of
Finance

Staff Present: Katrina Johantgen, Executive Director

The Chair declared a quorum present.

Approval of Minutes

The minutes of the March 23, 2011 Authority meeting were adopted as submitted.

Executive Director's Report

Ms. Johantgen reported to the members that CSFA staff is working on processing the applications received under Round Seven of the State Charter School Facilities Incentive Grant. Staff is reviewing the applications for eligibility and will begin assigning preference points once program eligibility has been established. Ms. Johantgen stated that staff will have finalized their review and applicant information will be presented to the board for award determinations at its June meeting.

CSFA staff is also conducting CSFP reviews and executing program agreements, some of which will be reviewed today. The schools have an upcoming deadline to meet and must have their soundness and program agreements to the State Allocation Board by the April 18th deadline.

Additionally, CSFA staff is also conducting ongoing reviews for the Round 6 Federal Grant recipients to verify continuous and ongoing eligibility.

Lastly, Ms. Johantgen discussed the intercept mechanism identified in CSFA's statute. The Intercept mechanism intercepts state revenue payments made by the state. Staff is working

with the Treasurer's Public Finance Division, the California Department of Education (CDE) and the State Controller's office to incorporate this payment process for bonds and notes.

Resolution 11-12 – Approving Financially Sound Determinations for the Charter School Facilities Program (CSFP) Applications Received for the December 2010 Lottery for Advanced (and/or Final) Apportionments as listed in Exhibit A (Action Item)

Ms. Johantgen discussed and highlighted the various schools and projects applying for Advance Apportionments under the December 2010 Lottery.

- California Montessori Project-Shingle Spring;
- Camino Nuevo Charter Academy;
- Camino Nuevo Charter High School;
- College Ready Academy High No. 8;
- College Ready Academy High No. 9;
- Helix Charter School;
- Pathways to College Charter School; and
- Santa Rosa Charter School (both new construction and rehabilitation projects).

Mr. Gary Bowmen, Executive Director for the California Montessori Project, addressed the board members. He expressed his thanks and appreciation to Ms. Johantgen, staff, and the board members for their leadership and perseverance over the last six years in granting awards.

Ms. Johantgen recommended the listed schools be found to have maintained financial soundness for purposes of Advance Apportionments and also that the findings related to California Montessori Project – Shingle Springs and Pathways to College Charter School be found sound contingent upon execution of an Implementation Agreement with CSFA, the State Controller's Office, and CDE to intercept the state-aid portion of the schools' General Purpose Block Grant at regular intervals to satisfy the payment requirements.

It was moved, seconded, and passed unanimously to adopt Resolution 11-12, finding the eight schools (nine projects) listed above to be financially sound as designated for purposes of Advance Apportionments, but not for Final Apportionments, under the Program.

Resolution 11-13 – Approving Financially Sound Determinations for the Charter School Facilities Program (CSFP) Applications Received for the February 2011 Lottery for Advanced (and/or Final) Apportionments as listed in Exhibit B

Ms. Johantgen highlighted three schools applying for Advance Apportionments under the February 2011 Lottery.

- California Montessori Project – Elk Grove,
- Camino Nuevo Charter Academy, and
- Santa Ynez Valley Charter School (new construction project).

Ms. Johantgen recommended the three schools be found to have maintained financial soundness for purposes of Advance Apportionments and also that the findings related to

California Montessori Project – Elk Grove be found sound contingent upon execution of an Implementation Agreement to intercept the state-aid portion of the schools' General Purpose Block Grant at regular intervals to satisfy the payment requirements.

It was moved, seconded, and passed unanimously to adopt Resolution 11-13, finding the three schools listed above to be financially sound for purposes of Advance Apportionments, but not for Final Apportionments, under the Program.

Resolution 11-14 – Approving Financially Sound Determinations for the Charter School Facilities Program Applications for Preliminary and/or Advance Apportionments for Animo South Los Angeles Charter High School located in Los Angeles, CA (Action Item)

This item was held over for a future board meeting.

Resolution 11-15 – Approving Financially Sound Determinations for the Charter School Facilities Program Applications for Preliminary and/or Advance Apportionments for Ocean Charter School located in Los Angeles, CA

The members were advised Ocean Charter School has requested an alternate Preliminary Apportionment under Proposition 1D for anticipated project costs of \$20,175,488.

Ocean is seeking new construction of a 17-classroom facility in the West Los Angeles area to house up to 440 students in Kindergarten through 8th grade. The plans include the building of a special resource teaching space, administrative offices, a library, auditorium, gymnasium and cafeteria. Ocean is in discussions with the Los Angeles Unified School District to rehabilitate an existing district facility.

The school met all Program eligibility criteria, including being in good standing with its charter authorizer. Projected debt service coverage ratios are 144.7% and 143.3% in the first two years of project occupancy. Student performance is positive with the school meeting all AYP criteria in the last five years and receiving scores of 802 to 896 in the same period.

Staff recommended the Board determine Ocean Charter School is contingently financially sound for purposes of Preliminary and Advance Apportionments, but not for purposes of a Final Apportionment. This determination of financial soundness is contingent upon Ocean's execution of an Implementation Agreement whereby CSFA will intercept Ocean's state-aid portion of its General Purpose Block Grant at regular intervals to satisfy the payment requirements of its CSFP obligations.

It was moved, seconded, and passed unanimously to adopt Resolution 11-15, finding Ocean Charter School to be found financially sound, contingent upon implementation of the intercept mechanism, for purposes of Preliminary and Advance Apportionments but not for Final Apportionment.

Resolution 11-16 – Approving Financially Sound Determinations for the Charter School Facilities Program Applications for Final Apportionments for Santa Ynez Valley Charter School located in Santa Barbara County, CA

Santa Ynez Valley Charter School requested conversion to Final Apportionment of its rehabilitation project. This is in addition to its request for an Advance Apportionment for its new construction project included in Resolution 11-13 above.

Ms. Johantgen advised the school has met all eligibility criteria for Final Apportionment and is in good standing with its charter authorizer. The district is providing a lump sum payment to meet the local match requirement thereby eliminating the school's need to guarantee payments. Student performance for the school is positive having met all AYP criteria and API growth targets for the last three years.

Staff recommended Santa Ynez Valley Charter be found financially sound for purposes of Final Apportionment for its rehabilitation project.

It was moved, seconded, and passed unanimously to adopt Resolution 11-16, finding Santa Ynez Valley Charter has maintained its financial soundness for purposes of conversion to Final Apportionment for its rehabilitation project.

Resolution 11-17 — Approving the Memorandum of Understanding and Agreed Upon Procedures Among the Controller of the State of California, California Department of Education, and the California School Finance Authority Related to the Intercept of Charter School Funds Pursuant to Education Code 17199.4

This item was held over for a future board meeting.

Resolution 11-18 — Authorizing the allocation of Qualified School Construction Bond borrowing authority to the Alliance for College Ready Public Schools for projects located in Los Angeles, California in an amount not to Exceed \$20,000,000* under the Charter School QSCB Program

The Alliance for College Ready Public Schools requested funding for new construction and/or renovation of school facilities through the use of Qualified School Construction Bonds (QSCBs).

The proceeds of the QSCBs will be used for two Alliance schools. The first project, at 1918 N. Broadway in Los Angeles, will provide permanent facilities for the existing College-Ready Middle School #5, and the to-be-opened College-Ready High School #14. The planned 45,000 sq. ft facility will include 42 classrooms, four labs, restrooms, administration offices, and parking. The second project, at 13245 Hubbard Street in Sylmar will provide permanent facilities for College-Ready High School #13. The project includes a two-story, 29,900 sq. ft. facility with 24 classrooms, two labs, restrooms, and an outdoor eating area.

The financing for these projects will use a unique structure to combine QSCBs to fund self-leveraged loans with a New Markets Tax Credit financing. The QSCBs will use the tax-credit approach instead of the direct-pay subsidy approach. In addition to the NMTC equity, the tax-credits for the QSCBs will be stripped off and sold to the NMTC equity investor. Based on information provided by the financing team and based on market conditions at the time the summary was drafted, on top of the approximately \$2.5 million NMTC equity, this could result in an additional \$1.2 million of equity. Staff has not independently analyzed the

financing assumptions provided by the financing team. As this is a private placement, staff has not reviewed any credit reports regarding the borrower or its credit rating.

It has recently come to CSFA's attention that Alliance is in discussions with a large, urban charter management organization for purposes of a potential merger of the two organizations. Staff asked Alliance for information regarding the legal and financial implications of the merger and received the following explanation, —Nothing is definite as formal negotiations have not yet commenced. More information should become available by mid-May. The legal and financial impact of the proposed merger is expected to be minimal, if and when it is finalized." Staff will continue to monitor this issue and assess any risks such a merger could have on the financial soundness of Alliance and its schools.

Given that the financing team has identified the new market tax credit investors as well as the lenders into these projects, the amount of reported equity in the financing structure, and the reported readiness of these project, staff recommends the Board adopt Resolution 11-18 approving the allocation of \$22 million of the QSCB borrowing authority to Alliance for College-Ready Public Schools. The recommended date the allocation will expire is December 31, 2011.

It was moved, seconded, and passed unanimously to adopt Resolution 11-18 authorizing the allocation of Qualified School Construction Bond borrowing authority to The Alliance for College Ready Public Schools in an amount not to exceed \$20,000,000.

Resolution 11-19 – Approving the extension of allocation of Qualified School Construction Bond Borrowing Authority to Livermore Valley Charter School and Livermore Valley Charter Preparatory (Tri-Valley Learning Corporation) (Livermore, California) and Increasing the Allocation from \$7,000,000* to an Amount Not to Exceed \$13,000,000* under the Charter School QSCB Program

The members were advised Livermore Valley Charter School and Livermore Valley Charter Preparatory (Tri-Valley Learning Corporation) is requesting an additional \$5 million in QSCBs borrowing authority.

At the August 11, 2010 Authority meeting, the board allocated \$7 million to Livermore Valley Charter School and Livermore Valley Charter Preparatory (Tri-Valley Learning Corporation) to finance the construction of two school sites. The QSCB allocation granted at the August 2010 board meeting expired on December 31, 2010, due to issues related to negotiations for the purchase of land and buildings. Tri-Valley subsequently requested an extension to June 30, 2011, and a new QSCB allocation for the amount of \$13 million due to higher projected construction costs.

Staff recommended the members adopt Resolution 11-19 approving the allocation of a total \$13 million of QSCB borrowing authority to Livermore Valley Charter School and Livermore Valley Charter Preparatory (Tri-Valley Learning Corporation). Staff will continue to work with representatives from the schools and their financing team to develop a bond financing plan which will include a rating strategy and bond sale timing.

It was moved, seconded, and passed unanimously to adopt Resolution 11-19, authorizing the new allocation of QSCBs borrowing authority to Livermore Valley Charter School and Livermore Valley Charter Preparatory (Tri-Valley Learning Corporation).

Resolution 11-20 – Authorizing the Allocation of Qualified School Construction Bond Borrowing Authority to the Campbell Union School District on behalf of Rolling Hills Middle Charter School located in Santa Clara County, California in an Amount not to exceed \$6,700,000*

See below.

Resolution 11-21 – Authorizing the Allocation of Qualified School Construction Bond Borrowing Authority to the Campbell Union School District on behalf of Sherman Oaks Elementary Charter School located in Santa Clara County, California in an Amount not to exceed \$7,300,000*

See below.

Resolution 11-22 – Authorizing the Allocation of Qualified School Construction Bond Borrowing Authority to the Campbell Union School District on behalf of Lynhaven Elementary Charter School located in Santa Clara County, California in an Amount not to exceed \$6,700,000*

See below.

Resolution 11-23 – Authorizing the Allocation of Qualified School Construction Bond Borrowing Authority to the Campbell Union School District on behalf of Castlemont Elementary Charter School located in Santa Clara County, California in an Amount not to exceed \$9,300,000*

Campbell Union School District (CUSD) applied for QSCB borrowing authority on behalf of four charter schools: Rolling Hills Middle Charter School for \$6.7 million; Sherman Oaks Elementary Charter School for \$7.3 million; Lynhaven Elementary School for \$6.7 million; and Castlemont Elementary Charter School for \$9.3 million. In this instance, CUSD is seeking an allocation of QSCB borrowing authority, and will serve as the issuer of general obligation bonds.

The district encompasses a 14 square mile area and serves portions of Campbell, San Jose, Los Gatos, Monte Sereno, Saratoga, Santa Clara and an unincorporated area of Santa Clara County. The District maintains one middle school, eleven charter schools, a community day school, a District Office, a corporation yard and three closed school sites.

The CUSD projects include a multitude of modernization and construction projects, including construction of new play structures, ADA compliance upgrades, re-roofing, construction of coverings for walkways/lunch structures, construction of new multi-use buildings, new parking lots, upgrading and replacing landscaping, and installation/relocation of modular classrooms.

The Rolling Hills project is projected to start summer 2011, while the other three schools will begin in Summer 2012. All projects are projected to be finished by the end of 2013.

CUSD's financial performance is demonstrated by its ability to maintain positive fund balances, its current Basic Aid status, prudent management practices, and its ability to issue a wide variety of bonds, with ratings of Aa2/AA- by Moody's, and Standard and Poor's, respectively. Since 1994, the District has issued more than \$190 million in general obligation bonds and refunding bonds on twelve occasions.

Staff recommended the Board separately adopt Resolutions 11-20, 11-21, 11-22, and 11-23 approving the allocation of QSCB borrowing authority to Campbell Union School District on behalf of the following charter schools: 1) Rolling Hills Middle Charter School in an amount not to exceed \$6,700,000; 2) Sherman Oaks Elementary Charter school in an amount not to exceed \$7,300,000; 3) Lynhaven Elementary Charter School in an amount not to exceed \$6,700,000; and 4) Castlemont Elementary Charter School in an amount not to exceed \$9,300,000.

It was moved, seconded, and passed unanimously to adopt Resolution 11-20, authorizing the allocation of QSCBs borrowing authority to the Campbell Union School District on behalf of Rolling Hills Middle Charter School in an amount not to exceed \$6,700,000.

It was moved, seconded, and passed unanimously to adopt Resolution 11-21, authorizing the allocation of QSCBs borrowing authority to the Campbell Union School District on behalf of Sherman Oaks Elementary Charter School in an amount not to exceed \$7,300,000.

It was moved, seconded, and passed unanimously to adopt Resolution 11-22, authorizing the allocation of QSCBs borrowing authority to the Campbell Union School District on behalf of Lynhaven Elementary Charter School in an amount not to exceed \$6,700,000.

It was moved, seconded, and passed unanimously to adopt Resolution 11-23 authorizing the allocation of QSCBs borrowing authority to the Campbell Union School District on behalf of Castlemont Elementary Charter School in an amount to exceed \$9,300,000.

Resolution 11-24 - Authorizing the Issuance From Time to Time of Notes to Finance Working Capital in an Amount Not to Exceed \$3,000,000*, Approving the Form of a Note Purchase Agreement and a Supplemental Indenture Therefore, and Authorizing Certain Other Actions in Connection Therewith for Aspire Public Schools, including the following schools under one or more Aspire Public Schools charters: 1) Antonio Maria Lugo Academy, Huntington Park, California; 2) Centennial College Preparatory Academy, Huntington Park, California; 3) Firestone Academy, South Gate, California; 4) Gateway Academy, South Gate, California; 5) Huntington Park Charter School, Huntington Park, California; 6) Summit Charter Academy, Modesto, California; 7) University Charter School, Modesto, California; 8) Vanquard College Preparatory Academy, Empire, California

Ms. Johantgen advised that Aspire Public Schools requested authorization for the issuance of \$3 million in revenue anticipation notes for working capital for eight of their schools to be issued through a private placement.

Staff recommended the members adopt the resolution approving the authorization for issuance of \$3 million in RANs.

It was moved, seconded, and passed unanimously to adopt Resolution 11-24, authorizing the allocation of \$3 million in Revenue Anticipation Notes to Aspire Public Schools one or more of the following Aspire Public Schools charters: 1) Antonio Maria Lugo Academy, Huntington Park; 2) Centennial College Preparatory Academy, Huntington Park; 3) Firestone Academy, South Gate; 4) Gateway Academy, South Gate; 5) Huntington Park Charter School, Huntington Park; 6) Summit Charter Academy, Modesto; 7) University Charter School, Modesto; and 8) Vanguard College Preparatory Academy, Empire.

Public Comment

There being no additional public comments or other business to conduct, the meeting was adjourned.

Respectfully submitted,

Katrina Johantgen
Executive Director