

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, January 11, 2012
10:00 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: Patricia Wynne, designee for Bill Lockyer, State Treasurer
Pedro Reyes, designee for Ana Matosantos, Director of Finance
Jeannie Oropeza, designee for Tom Torlakson, Superintendent of Public
Instruction

Staff Present: Katrina Johantgen, Executive Director
Terri Kizer, Program Analyst
Steven Theuring, Program Analyst

The Chair declared a quorum present.

Approval of Minutes

The minutes for the November 9, 2011 Authority Board meeting were approved as submitted.

Executive Director's Report

Ms. Johantgen, Executive Director, advised of the status of the three rulemaking files that are in process. She informed the Board members that there were no public comments received regarding the changes made to the Charter School Facilities Program (CSFP) regulations. With regard to the State Charter School Facilities Incentive Grants Program regulation changes, Authority staff received one public comment. The comment was in regard to the planned increase in the driving distance for the categories of Overcrowded School Site, AYP school choice and API school choice from three miles to five miles for suburban schools and 10 miles for rural schools, respectively; the distance is determined by the Locale code assigned to each school by the U.S. Department of Education. Upon review and analysis, Authority staff will be submitting language changes to the OAL that will increase the miles radius in the driving distance to ten miles for suburban schools and to 15 miles for rural schools. To encourage schools that fall under the suburban and rural categories, Authority staff will highlight the changes when charter schools are notified of the upcoming funding round. The changes in the regulations will take effect in February. The next funding round will begin immediately after approval of the regulations and will be completed prior to the June 2012 meeting.

Ms. Johantgen informed the Board that Authority staff continues to work with charter stakeholders on a legislative proposal that will make changes to the CSFA Act.

Ms. Johantgen informed the Board that in the current CSFP Advance Apportionment funding round that ends in May, Authority staff received applications from 4 schools and is working with

the Office of Public School Construction (OPSC) to determine eligibility for other Advance Apportionment reviews. Authority staff will submit financial soundness reviews to the Board between now and its May 2012 meeting.

Ms. Johantgen also discussed the issue of some schools not being able to access funds for Final Apportionment given the uncertainty on how the GO Bonds proceeds are allocated. The Authority was approached about a bridge financing program that would allow schools to begin construction on their CSFP projects in advance of Final Apportionment funding becoming available through State GO bond sales. Ms. Wynne requested Ms. Johantgen to keep the Board informed of the status of this request.

Resolution No. 12-01 – Approving Financially Sound Determinations for the Charter School Facilities Program Application for Advance Apportionment for Leadership Public Schools Richmond, Located in Contra Costa County, California

Ms. Johantgen advised that Leadership Public Schools – Richmond has requested an Advance Apportionment of \$2,479,636 for design costs relating to its rehabilitation project under the Proposition 1D funding round.

On May 11, 2011, the Authority determined that Leadership Public Schools – Richmond (LPSR) was financially sound for an Advance Apportionment. LPSR has recently requested that the Authority provide an updated determination of LPSR's continued financial soundness since it has been more than six months and the school is still working with OPSC to meet their requirements for release of an Advance Apportionment. Therefore, staff has conducted a reassessment of LPSR's financial soundness utilizing uniform assumptions and analysis that are used for all schools based on no anticipated State budget triggers, COLA's, or increases in state aid.

LPSR exceeds the 1X debt service coverage minimum and shows no problems related to enrollment or student performance. In response to questions from the members, Ms. Johantgen confirmed that the school had applied a 3% reduction to projected revenues and staff did not apply additional cuts to the proposed budgets.

Ms. Johantgen mentioned to the Board that this project is a joint use project between LPSR and West Contra Costa Unified School District, where the district will be building a high school on the same site and will be sharing some joint-use facilities with LPSR.

The members discussed the process related to the current budget and the anticipated timeline for repaying the loan portion of the award. The members also discussed situations when schools may be unable to meet the requirements for continued financial soundness.

Staff recommended LPSR be found to have maintained its financial soundness for purposes of an Advance Apportionment for design costs.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-01, finding Leadership Public Schools - Richmond financially sound for purposes of its Advance Apportionment for design costs relating to its rehabilitation project and is contingent upon LPSR electing to have its CSFP payments intercepted at the State level pursuant to Education Code Sections 17199.4 and 17078.57.

Resolution No. 12-02– Approving Financially Sound Determinations for the Charter School Facilities Program Application for Advance Apportionment for Ocean Charter School, Located in Los Angeles County, California

Mr. Steven Theuring, Program Analyst, presented this item to the Board. Ocean Charter School (OCS) was approved for a Preliminary Apportionment in April 2011 and has recently requested Advance Apportionments for both site acquisition and design costs.

The school is currently in negotiations with LAUSD (Los Angeles Unified School District) to have access to the Walgrove Elementary School site to become the permanent facility for OCS. Depending on the outcome of these negotiations; OCS may amend their request to OPSC to only include the Advance Apportionment for design costs.

Although the school included a 7% budget trigger cut in their original projections, OCS was still able to maintain satisfactory debt service coverage. Staff noted that OCS is still dependent on contributions to meet debt service coverage. Another concern is that OCS is in arbitration with the teacher's union regarding teacher's salaries. OCS has notified staff that the arbitration has been settled and the settlement was included under expenses in the new projections. OCS enrollment has continued to grow in the last seven years.

In response to questions from Mr. Reyes and Ms. Oropeza, Mr. Theuring explained that, if OCS' negotiation with LAUSD for the Walgrove site falls through, OCS will revert back to its original plan of looking for a new site.

Staff recommended OCS be found to have maintained its financial soundness for purposes of an Advance Apportionment for both site acquisition and design costs.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-02, finding Ocean Charter School financially sound for purposes of its Advance Apportionments, contingent upon OCS electing to have its CSFP payments intercepted at the state level pursuant to Education Code Sections 17199.4 and 17078.57

Item 6: Citi 2011-12 Charter School Working Capital Program (Information Item)

Ms. Johantgen explained that she was contacted by Citigroup (Citi) and First Southwest Company (FSW) about a pooled note financing program. The program will be relying heavily on the Authority's intercept feature to provide assurance that payments will be made to the Trustee on behalf of the borrowers. To clarify to the Board members and everyone present, Ms. Johantgen reiterated that the Authority would be serving as the conduit issuer and this is not the Authority's Program.

Ms. Johantgen introduced Ms. Betina Dowdell, Vice President, Citigroup and Mr. Michael Kremer, Vice President, First Southwest Company, as the presenters for the Citi 2011-12 Charter School Working Capital Program. Ms. Dowdell informed the Board that the Citi 2011-12 Charter School Working Capital Program will provide a cost-effective method of obtaining working capital for charter schools in order to sustain cash flows during the deferral of State Apportionments. Based on Citi's lending criteria, charter schools can complete an online 3 step application and will be notified regarding basic program requirements within one week after completion of an application.

Mr. Kremer continued the presentation by explaining the challenges faced by California charter schools and how the Charter School Working Capital Program can help those schools impacted by the deferral of State Apportionments. Mr. Kremer also addressed the concern raised regarding the free-reduced lunch eligibility requirement; he explained that is the requirement is only used as a metric but will not affect the loan.

Mr. Joe Harrington, Director of Financial Services for the California Charter School Association (CCSA), provided public comments and stated that charter schools do not have available the same type of working capital options as districts, some schools have opted for traditional loans while others welcome more financing options.

Mr. John Helgeson, Charter School Capital, provided public comments and feedback on the Citi program, and also provided information for another financing option for charter schools.

Mr. Bronche Jones spoke on behalf specific charters schools and charter school organizations. Mr. Jones asked the members to consider the proposed timeline and consider possible budget issues that affect charter schools' finances in the future.

The members spoke about the various options for charter schools and discussed the implication that agreeing to serve as conduit issuer may imply endorsement of a specific project.

Mr. Mark Paxson, General Counsel for the State Treasurer, confirmed that the members are not advocating one option over another with this proposal. This is an application to the Authority to engage in a financing program as put forth by Citibank and FSW Company. The other options discussed today are not being presented for approval or consideration.

In closing, Ms. Wynne recommended staff provide more information to the Board members about various financing options available for charter schools and especially the status of the process for charter schools to request a waiver of the deferrals.

Public Comment

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

Ms. Johantgen noted that the next CSFA board meeting is scheduled for February 8, 2012.

Respectfully submitted,

Katrina Johantgen
Executive Director