

# CALIFORNIA SCHOOL FINANCE AUTHORITY

## Meeting of the Board

Wednesday, October 10, 2012  
11:30 a.m.

915 Capitol Mall, Room 110  
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 J. Matosantos, Director of Finance  
Kathleen Moore, 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 September 26, 2012 Authority board meeting were approved as submitted.

### Executive Director's Report

Bond Report: Ms. Katrina Johantgen informed the members that New Designs Charter School financing priced and will close soon. The school was satisfied with the all-in borrowing cost that was achieved with the financing.

Mr. Steven Theuring notified the members that the QSCB deal for Livermore/Tri-Valley Learning Corporation closed on October 5, 2012. The financing was ultimately a privately placed financing and the school is quite happy that the financing finally closed. Tri-Valley's first debt service payment will be intercepted by the State Controller Officer in April 2013. Mr. Theuring also informed the members that High Tech High is just waiting for the results of Proposition 30 before moving forward with its QSCB financing.

Ms. Johantgen provided an update on other QSCB allocations.

Charter School Facilities Program (CSFP): Ms. Johantgen updated the members on the status of the State Charter School Facilities Program. Ms. Johantgen highlighted that Authority will be presented with several CSFP financial soundness reviews in the coming months of November, December and January. Authority staff is working closely with the Office of Public School Construction (OPSC) to ensure financial soundness reviews are done before the deadline.

State Charter School Facilities Incentive Grant: Ms. Johantgen informed the members that Authority will be proposing an amendment to the regulation to the State Charter School Facilities Incentive Grants Program for the upcoming funding round. The key issues are: 1) related to costs eligible pursuant to schools that have Proposition 39 agreements with school districts; 2) emphasizing Davis-Bacon prevailing wage requirements; and 3) eligibility of schools that do not show eligible enrollment on the California Department of Education's (CDE's) website. Ms. Johantgen plans on bringing the proposed amendments to the regulations to the November board meeting.

Charter School Facilities Credit Enhancement Grant Program: Ms. Johantgen informed the members that the Alliance College-Ready Public Schools is seeking an enhancement grant, as is Central City Value School and Downtown Value Schools. Staff also is working to see if the grant can be utilized to enhance a small bank loan for a charter school in Stockton.

Legislation: Ms. Johantgen informed the members that currently there is no legislative update.

Resolution No. 12-35 – Authorizing the Issuance from Time To Time of Notes in an Aggregate Amount Not to Exceed \$11,565,000 to Finance Working Capital Loans to Certain Charter Schools in Maximum Loan Amounts, and Approving the Form of a Note Purchase Agreement, Loan Agreements and an Indenture Therefor, and Authorizing Certain Other Actions in Connection Therewith

Ms. Johantgen introduced the financing team for Citi Working Capital Notes, Mr. Mike Kremer of First Southwest Company, and Ms. Betina Dowdell of Citibank. Ms. Johantgen informed the members that this is the third working capital transaction brought to the Board, which is being financed by Citi and structured by First Southwest. The schools are: Arroyo Paseo Charter High School located in San Diego; Envision Academy for Arts & Technology located in Oakland; Impact Academy of Arts & Technology located in Hayward; Keiller Leadership Academy located in San Diego; Pathways to College located in Hesperia; SIATech located in Oceanside, and Valley Preparatory Academy Charter located in Fresno.

Ms. Johantgen informed the members that the Authority has communicated with the financing team that in order to remain competitive, the all-in costs for charter schools has to be lower than in previous rounds. Authority staff also is working with the State Treasurer's Public Finance Division to access market information regarding working capital as there are highly rated short term notes being underwritten and sold at rates below 0.17% and non-rated taxable notes for other educational programs and entities with relatively low interest rates. Ms. Johantgen provided a chart for comparison to the members.

Ms. Wynne inquired if an intercept mechanism was in place for the Citi deal as compared to those on the charter presented. Ms. Johantgen advised that staff is working on verifying the information from the issuer, Stone & Youngberg but believes that a county intercept may be in place.

Mr. Mike Kremer informed the members of the closing of Series 2012C Financing for three charter schools, Envision Academy of Arts & Technology, Impact Academy of Arts & Technology and Pathways to College. Mr. Kremer explained that this is a smaller Series due to the short timeframe for applications but expects to have bigger issue to the board to assist in covering the Spring deferrals. Mr. Kremer also mentioned that if Proposition 30 passes, schools might be able to access some funding by December 2012.

Ms. Dowdell briefly explained that Citi wants to expand the program and is looking at the pricing and financing issues. Ms. Wynne expressed concerns regarding the high fee being charged, indicating that with the intercept mechanism in place, this should minimize the risk factor. Ms. Dowdell added that the fee in consideration includes the back office cost to the bank, the cost for due diligence (not just the risk of the underlying borrowers) and she added that there is also the cost of maintenance as well built into the fee structure. Ms. Wynne advised that the Program will be more robust if Citi can lower the fees. Mr. Reyes inquired about the inclusion of Proposition 30, assuming it will pass, that First Southwest will increase the available loan amount. Mr. Kremer addressed the members regarding the processes in widening the offering, which will allow schools to draw funds quickly.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-35, authorizing the issuance from time to time of notes in an aggregate amount not to exceed \$11,565,000 to finance working capital loans to the designated charter schools in maximum loan amounts, and approving the form of a note purchase agreement, loan agreements and indenture therefor, and authorizing certain other actions in connection therewith.

Resolution 12-36 – Authorizing the Issuance of Notes to Finance Working Capital in an Aggregate Amount Not To Exceed \$6,037.881 Outstanding at Any One Time for the Designated Schools, Approving Forms of the Note Purchase Agreement, Loan Agreements and an Indenture Thereof, and Authorizing Certain Other Actions in Connection Therewith

Ms. Johantgen introduced the following members of the Rocketship financing team: Mr. John Palmer of Orrick, Herrington, & Sutcliffe; Ms. Amy Laughlin of the Low Income Investment Fund (LIIF) and Mr. James McKenna of Rocketship Education. The six designated schools are: Rocketship Si Se Puede Academy; Rocketship Los Suenos Academy; Rocketship Mosaic Academy; Rocketship Discovery Prep; Rocketship Brilliant Minds; and Rocketship Alma Academy .

Mr. James McKenna, Rocketship Education, gave a brief description of the Rocketship model and mission and background information regarding the charter schools located within the greater San Jose area.

Ms. Amy Laughlin from LIIF, spoke regarding the investment firm's background, and added that LIIF is a non-profit whose mission is to serve charter schools and like industries. She expressed gratitude for the state intercept mechanism, and added that it is a critical tool and important in the charter school lending process by providing additional options. Ms. Laughlin gave a brief explanation on how her firm became involved in cash flow transactions via their involvement with the Aspire organization's loan transactions. She also gave information regarding the firm's fees and costs. She added that the rate is not an absolute reflection of the risk but also the work involved.

Mr. Reyes expressed gratitude that these new tools are available to charter school financing. Ms. Johantgen publicly acknowledged the work of staff in the State Controller's Office and the California Department of Education, and Mr. Stepan Haytayan of the State Attorney General's Office, who are largely responsible for making these transactions viable.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-36 – authorizing the issuance of notes to finance working capital in an aggregate amount not to exceed \$6,037,881 outstanding at any one time for the designated schools, approving forms of the note purchase agreement, loan agreement, loan agreements and an indenture thereof, and authorizing certain other actions in connection therewith.

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

Respectfully submitted,

Katrina Johantgen  
Executive Director