

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Tuesday, November 27, 2012
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: Patricia Wynne, designee for Bill Lockyer, State Treasurer
Jennifer Rockwell, 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 October 10, 2012 Authority board meeting were approved as submitted.

Executive Director's Report

Conduit Bond Program: Ms. Katrina Johantgen informed the members that adoption of bond issuance guidelines, to be presented later in this meeting, will provide guidance to borrowers and their financing teams as they make decisions about which conduit issuer to use.

Mr. Steven Theuring reported three financings have closed: the Citi Working Capital 2012C Series, Rocketship (RAN), and New Designs (Bonds). Mr. Theuring also advised that the second principal payments have recently been intercepted for both New Jerusalem and Oak Grove Elementary/Willowside Middle charter school financings.

Charter School Facilities Program (CSFP): Ms. Johantgen advised staff is working closely with the Office of Public School Construction (OPSC) and the State Allocation Board (SAB) to ensure all CSFP payments are being made and made in a timely manner. With the intercept mechanism in place, Authority staff together with the Controller's office is working to ensure CSFP payments are being intercepted as scheduled beginning January 2013. Ms. Johantgen explained that schools that have been making payments by check may continue to do so, provided the schools continue to make payments on time.

State Charter School Facilities Incentive Grant: Ms. Johantgen informed the members that the annual reports for the 2004 and 2009 grants were submitted to the U.S. Department of Education. No updates have been provided by the U.S. Department of Education whether this program will continue with another five-year funding round in 2014.

Resolution No. 12-37 – Approving Debt Issuance Guidelines

Ms. Johantgen explained to the members that the number of non-rated and rated financing transaction applications have increased and recommended the members adopt bond issuance guidelines. Authority staff has been working closely with the Office of the Attorney General, counsel, other conduit debt financing entities, and interested parties such as investment bankers and financial advisors in developing the proposed guidelines. The proposed guidelines balance the Authority's interests in ensuring that the rating of the debt sold reconciles with the sophistication of the investor while providing borrowers with issuance flexibility considering the unique credit characteristic of charter school borrowers.

Ms. Johantgen highlighted key provisions of the three categories established based on the bond rating achieved by the borrower. All three categories will require the use of the intercept mechanism for bond payments. Among other requirements, transactions with debt rated less than A3 will be limited to Qualified Institutional Buyers (QIBs) and Accredited Investors (AIs) and will be in minimum denominations of \$25,000. Transactions with debt rated less than Baa3 or unrated will be in minimum denominations of \$100,000. Additionally, each conduit bond financing transaction will be reviewed individually and lower rated or unrated debt may have additional requirements as listed in the guidelines, such as a Traveling Investor Letter or require higher minimum denominations.

Mr. John R. Snider, RBC Capital Markets, responded to Ms. Rockwell's inquiry regarding the initial sales of BBB- rating and the Traveling Investor Letter's requirement for each subsequent purchaser by clarifying the intent, in some situations, of limiting initial sales to QIBs only.

Ms. Johantgen informed the members of two key unique features. The first is the enforcement of the intercept mechanism. The second is limiting sales to QIBs and AIs. Ms. Johantgen explained that Authority staff has consulted with the State Treasurer's Office, Public Finance Division in drafting the bond issuance guidelines to establish a framework that is deemed fair. Ms. Johantgen briefly explained the complexity of achieving an investment grade rating. Ms. Johantgen noted that the proposed guidelines apply to bond transactions and will not affect the Authority's notes financing program.

Mr. Eugene Clark-Herrera, Orrick, Herrington & Sutcliffe, LLP, commented on the recently closed non-rated transaction for Livermore/Tri-Valley Corporation.

Ms. Moira Topp, Sloat Higgins Jensen & Associates, spoke on behalf of the California Charter Schools Association and expressed their appreciation on the Authority's work in providing clarity by implementing these bond issuance guidelines.

Ms. Johantgen recommended the members adopt the proposed guidelines.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-37, approving the Debt Issuance Guidelines.

Resolution 12-38 – Approving the Allocation of Qualified School Construction Bond (QSCB) Borrowing Authority to Alliance College-Ready Public Schools in an Amount Not to Exceed \$10,500,000 under the Charter School QSCB Program and Authorizing the Taking of Necessary Actions in Connection Therewith

This item was held over until a future meeting.

Resolution 12-39 – Approving the Charter School Facilities Credit Enhancement Grant (CFDA #84.354A) Program Agreement

Ms. Johantgen provided an update for the Charter School Facilities Enhancement Grant Program. When approved, the Program Agreement will be required prior to moving forward with the award of program funds.

Ms. Johantgen recommended the form of the Program Agreement be approved.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-39 – approving the form of the Program Agreement for the Charter School Facilities Credit Enhancement Grant Program (CFDA #84.354A).

Resolution 12-40 – Approving the Charter School Facilities Credit Enhancement Grant Program (CFDA #84.354A) Award in an Amount Not to Exceed \$1,000,000 to Central City Value School and Downtown Value School, Los Angeles County, California

Ms. Johantgen informed the members that an application for the Credit Enhancement Grant Program has been received for an award on behalf of Central City Value School and Downtown Value School. This Program, funded by the U.S. Department of Education, will assist California charter schools in obtaining access to capital markets and/or lowering their overall financing costs. As noted on the presented application checklist, this is a “not to exceed” award for purposes of the first credit enhancement allocation of \$1,000,000. The application checklist was developed by staff to demonstrate how the applicant has met all requirements outlined in the Program regulations.

Mr. Clark-Herrera briefly updated the members on the status of Value Schools. Mr. Clark-Herrera stated the ratings process is underway. Ms. Johantgen added that Mr. Clark-Herrera has been working closely with Mr. Paxson, General Counsel for the State Treasurer, and with Mr. Stepan Haytayan, of the Office of the Attorney General, on how some of the features and terms and conditions of the Grant Agreement fit in the bond documents.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-40 – approving the Charter School Facilities Credit Enhancement Grant Program (CFDA #84.354A) award in an amount not to exceed \$1,000,000 on behalf of Central City Value School and Downtown Value School.

Resolution 12-41 – Approving Amendments to the Regulations for the State Charter School Facilities Incentive Grants Program (CFDA #84.282D)

Ms. Johantgen spoke regarding proposed regulation changes to the State Charter School Facilities Incentive Grants Program (Program).

One of the most significant changes is to Section 10179 (d), in which the proposed amendments include an expanded process for awarding funds to alternates of the final funding round in the event sufficient funds become available to allow for either an additional funding round or, alternatively, if all alternates are exhausted, then awards to current subgrantees may be increased if their annual facility costs have increased.

Other proposed clarifying changes and amendments to the Program regulations include:

- Section 10178 (a): Clarification that eligible costs may include any combination of costs for base rent, lease, mortgage, Proposition 39 pro rata costs, and debt service. This clarifies that other costs such as utilities or reserve accounts are not eligible costs under this program.
- Section 10178 (d): Addition of language stating these grant funds may not be applied toward overhead or administrative costs of the school, chartering authorizer, educational management organization, or any other entity.
- Section 10178 (e) (formerly d): Clarification that these grant funds may not be used to supplement any school project/location receiving funds through the Charter School Facilities Program (CSFP).
- Section 10179 (a) and (b): Clarification that the enrollment used to calculate grant awards will be based on eligible K – 12 grade student enrollment on file with the California Department of Education. Enrollment not reported on CDE's website cannot be used for purposes of making grant awards.
- Section 10179 (d): Addition of language clarifying the award of available grant funds to alternate subgrantees. Currently, grant funds that become available will be awarded to alternate applicants, in rank order, from the most recent funding round until the scheduled time for the next funding round at which time funds that become available will be combined with the available funds for the next funding round. The new language will provide that if sufficient funds become available after the tenth funding round, the Authority may hold another funding round. Alternatively, if all alternate applicants from the tenth funding round are exhausted and an eleventh funding round is not scheduled, available funds may be awarded to current subgrantees of the final funding round, in rank order, that demonstrate increased facility costs.
- Section 10180 (h): Clarification that site control for construction/renovation projects will need to demonstrate site control for a minimum of the three-year grant period.
- Section 10180 (j); Addition of language requesting verification at the time of application that the subgrantee will ensure that construction or renovation project assisted with these federal funds will meet the prevailing wage requirements in the Davis-Bacon Act.
- Section 19182 (f): Clarifies that the First-Time Award Competitive Priority will apply to applicants under all funding rounds.
- Section 10185: Amends the end of the grant period for the 2004 grant (funding rounds 1-5) to September 30, 2013.
- Section 10188 (b): Clarifies that disbursements are to be applied toward eligible costs as identified under the grant program.

Mr. Mark Paxson explained the new timeline for submitting regulatory changes to the Office of Administrative Law (OAL). Ms. Wynne recommended continuing with the submission of the rulemaking file and if the new amendments are not effective until summer, then to begin

funding round 9 as scheduled and to implement the new regulations when they become effective.

Ms. Johantgen added one issue on content of the application is the clarification of the importance of compliance with the Davis-Bacon Act. She recommended the members approve and adopt the proposed amendments and the rulemaking process.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-41 – approving amendments to the regulations and conducting the rulemaking process for the State Charter School Facilities Incentive Grants Program (CFDA #84.282D).

Resolution 12-42 – Approving a Financially Sound Determination for the Charter School Facilities Program for Advance/Final Apportionment for Roseland Charter School Located in Sonoma County, California

Ms. Johantgen advised the members that Roseland Charter School had been found financially sound more than six months ago in April 2012. To meet deadline requirements for the Office of Public School Instruction (OPSC), the school is requesting a current determination of financial soundness for purposes of an Advance Apportionment. One of the issues noted was that the school's Adequate Yearly Progress improved from having met 10 of 18 criteria in 2010-11 to having met 13 of 18 criteria in 2011-12. Staff will continue to monitor the school's student performance. Ms. Johantgen recommended the members find the school has maintained financial soundness for purposes of the Charter School Facilities Program.

It was moved, seconded, and passed unanimously to adopt Resolution No. 12-42 – approving a financially sound determination for the Charter School Facilities Program for advance/final apportionment for Roseland Charter School located in Sonoma County, California.

Resolution 12-43 – Approving a Financially Sound Determination for the Charter School Facilities Program for Advance/Final Apportionment for CHIME Charter Middle School Located in Los Angeles County, California

This item was held over until a future meeting.

Resolution 12-44 – Approving a Financially Sound Determination for the Charter School Facilities Program for Advance/Final Apportionment for Lou Dantzler Preparatory Charter Middle School Located in Los Angeles County, California

This item was held over until a future meeting.

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

Respectfully submitted,

Katrina Johantgen
Executive Director