

MEMORANDUM

Staff Summary No. 4

Date: November 27, 2012
To: Members of the California School Finance Authority
From: Katrina M. Johantgen, Executive Director
Subject: Approving Debt Issuance Guidelines

Over the past few years, the California School Finance Authority (the "Authority") has received numerous conduit debt financing applications from potential borrowers. A component of evaluating these applications is a review of the creditworthiness of the financing being presented for board approval. As an issuer primarily serving California charter schools through various financing programs, the Authority is well-versed in the credit characteristics of our constituents. However, as the number of non-rated and rated financing transactions increased, so did the need to adopt a set of bond issuance guidelines that are in place for our constituents and their financing team members to analyze while contemplating whether to issue through the Authority or another conduit issuer serving charter school borrowers.

In developing the proposed bond issuance guidelines for board consideration, staff reviewed the issuance guidelines of other authorities within and outside of the State Treasurer's Office. Such examples included guidelines in place at the California Statewide Communities Development Authority; the California Municipal Finance Authority; the California Health Facilities Financing Authority; and the California Education Facilities Authority. Staff also received comments from the Attorney General's Office, bond and disclosure counsels, investment bankers, and other charter school stakeholders. The proposed guidelines are included below.

Whereas we have broad consensus for the guidelines below, we did deviate from the guidelines adopted by other issuers in some areas given the unique credit characteristics of charter school borrowers. The proposed guidelines balance the Authority's interests in the borrowers need for greater issuance flexibility with the importance of ensuring that the rating of the debt sold reconciles with sophistication of the investor.

Staff recommends that the Board adopt Resolution 12-37 approving the Debt Issuance Guidelines.

**CALIFORNIA SCHOOL FINANCE AUTHORITY
BOND ISSUANCE GUIDELINES**

These guidelines describe what the California School Finance Authority (Authority) would require for debt or bonds issued through the Authority. The Authority acknowledges that each financing must be reviewed individually, and that additional provisions may be considered if those provisions are a necessary part of a prudent borrowing and/or issuance strategy.

BOND RATING*	BONDS / DEBT ISSUANCE PROVISIONS
I. Debt Rated A-/A-/A3 or Better	<ul style="list-style-type: none"> • Bonds may be publicly offered without transfer restrictions • Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code
II. Debt Rated a minimum BBB-/BBB-/Baa3	<ul style="list-style-type: none"> • Bonds will be in minimum denominations of \$25,000 • Bonds may be publicly offered or privately placed • Bonds will be sold initially only to Qualified Institutional Buyers (QIB) and Accredited Investors (AI) • Subsequent transfers of bonds are limited to QIBs and AIs • Sales restrictions conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents • Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code
III. Debt Rated less than BBB-/BBB-/Baa3, or unrated	<ul style="list-style-type: none"> • Bonds will be in minimum denominations of \$100,000 • Bonds will be privately placed or publicly offered initially to QIBs and AIs • Bonds purchases will be required to execute an initial Investor Letter • Subsequent transfers of bonds will be limited to QIBs and AIs • Sales restrictions conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents • One or more of the following will be required depending on the transaction, as requested by the financing team and approved by the Authority: <ul style="list-style-type: none"> ○ Traveling Investor Letter; or ○ Higher minimum denominations of \$250,000; or ○ Physical Delivery; or ○ Limited initial sale to QIBs, with subsequent transfers limited to QIBs as well; or ○ Other investor protection measures • Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code

* Represents ratings by Standard & Poor's, Fitch, and Moody's respectively.