

**Staff Summary No. 5**

**Date:** October 29, 2013

**To:** Members of the California School Finance Authority

**From:** Katrina M. Johantgen, Executive Director

**Subject:** Resolution 13-46: Authorizing a Modification to the Sales Restrictions approved by the Authority pursuant to Resolution Nos. 13-22 (Inner City Education Foundation on behalf of View Park Preparatory Accelerated Charter High School) and 13-34 (Inner City Education Foundation on behalf of View Park Preparatory Accelerated Charter Elementary School and View Park Preparatory Accelerated Charter Middle School).

---

**Background:** At its May 2013 board meeting, the Authority approved the issuance of bonds on behalf of View Park Preparatory Accelerated Charter High School. The bond sale resolution approved by the Board contained certain sales restrictions that would be in place at the time the bonds sold given certain rating criteria. On October 9, 2013, the underwriting firm, Zeigler, priced and underwrote \$9,880,000 in tax-exempt bonds and \$345,000 in taxable unrated bonds (non-investment grade) on behalf of View Park Preparatory Accelerated Charter High School consistent with the terms and conditions of the Board's approval and the approved bond documents, including the required sales restrictions. In this case, because the bonds were unrated, the initial investors and any subsequent purchasers of the bonds would be required to meet the definition of Qualified Institutional Buyers (QIBs). The bond transaction closed a week later on October 16, 2013, at which time the borrower received its bond proceeds to begin its project. The Authority's Bond Issuance Guidelines have been attached for your reference.

**Issue:** As with other bond transactions, Ziegler signed a bond purchase agreement whereby it agreed to purchase the bonds authorized to be issued pursuant to Resolution Nos. 13-22 and 13-34. Ziegler did so based on the belief that it would be able to sell the bonds to interested investors. Ziegler worked with two large investors that are familiar with charter school credits. One investor, Pioneer, met the federal definition of a QIB. The other investor, Hamlin, while a Registered Investment Advisor, does not meet the legal definition of a QIB. This fact was not identified until shortly before the closing, at which time, Ziegler, as required by the bond purchase agreement, purchased the bonds. Inner City Education Foundation and Ziegler are now seeking Board approval to modify the sales restrictions to allow Ziegler to sale the bonds to Hamlin which would purchase the bonds on behalf of its institutional and accredited investor clients.

The sales restrictions as applied to these bonds would be as follows:

- 1) The initial investor must be a QIB or a registered investment advisor responsible for managing at least \$1 Billion in assets.
- 2) A registered investment advisor purchasing the bonds on behalf of its clients must have discretionary authority over the investments of its clients.
- 3) Bonds purchased by a registered investment advisor may be invested on behalf of accredited investors only where the accredited investors have a net worth of at least \$2,000,000
- 4) Any subsequent transfers by the registered investment advisor out of the firm's clients or accounts must be to QIBs.

**Recommendation:** Staff is recommending that the board adopt Resolution No. 13-46, authorizing a modification to the sale restrictions approved by the authority. This modification allows Hamlin to purchase the bonds on behalf of their clients under the conditions described above. Because Hamlin is a registered investment advisor and is exercising discretionary authority over its clients' investments, there are protections in place to ensure that these unrated charter school bonds are not acquired by individuals without the knowledge or sophistication to adequately assess the risk. In addition, because Hamlin has agreed to limit the investments to accredited investors with a minimum net worth of \$2,000,000, there is additional protection regarding the risk tolerance of the investors.

**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.*

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

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