

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, May 14, 2014
11:00 a.m.

915 Capitol Mall, Room 587
Sacramento, California 95814

Deputy State Treasurer Michael Paparian, serving as Chair, called the meeting to order.

Roll Call

Members Present: Michael Paparian, designee for Bill Lockyer, State Treasurer
Eraina Ortega, designee for Michael Cohen, Director of Finance
Kathleen Moore, designee for Tom Torlakson, Superintendent of Public Instruction

Staff Present: Katrina Johantgen, Executive Director
Kristen Schunk, Program Analyst
Steven Theuring, Program Analyst

The Chair declared a quorum present.

Approval of Minutes

The minutes for the April 9, 2014 Authority board meetings were approved.

Executive Director's Report

Charter School Facility Grant Program: Ms. Johantgen stated that as of the May 12, 2014, 5:00 pm deadline, CSFA had received approximately 300 applications from both the Los Angeles office and the Sacramento office.

The amount available for 2014-15 Local Assistance is \$92,031,000, CSFA staff will begin working on getting the 50% annual entitlement out to the schools by the August 31 deadline.

Charter School Revolving Loan Fund Program: Ms. Johantgen reported that staff is seeking to finalize the review of the remaining 50 applications for the current 2013-14 funding round.

Ms. Johantgen reported that the balance in the Loan Fund is approximately \$10,000,000, and the balance in the Security Fund is \$4,389,303. There are 50 eligible applications that are under review for the current funding program. The total requested loan amount is \$12,247,000. This would eliminate the chance for any of the schools that appealed their late applications at last month's meeting to compete for the current funding.

Ms. Johantgen stated that, based on Program criteria, if all schools are eligible, the 1st priority ranking is for new schools opening in 2014-15, with an approximately loan request of

\$7.1 million. The 2nd priority schools are those that are currently open – these schools are requesting approximately \$4 million in funding. The combined amount is just over \$11 million. Ms. Johantgen stated that the funds in the Security Fund will not be accessible for this funding round. CSFA is working with their consultants, Sjoberg Evanshenk Consulting, to get funding out to the new schools by the June 30th deadline. Staff also is working with the STO accounting department to begin offsets 4 months from now after the initial June 30th disbursements. Additionally, staff is working to finalize the loan agreement so that schools can execute the agreement as soon as loan determinations are made.

Ms. Johantgen informed the members that CSFA has been working with their consultant to develop benchmarks for this program, CSFA is seeking to bring these loan recommendations and methodology to the board in June.

State Charter School Facilities Incentive Grants Program: Ms. Johantgen updated the members that after reviewing the 76 applications that were received in May for Funding Round 10 of the Program, it appears that many of these schools may not be eligible because they are currently receiving other program funding. Schools that are eligible for both programs must receive the state funding first. Due to this issue, CSFA anticipates there will not be a long list of alternate schools as has been the case in past funding rounds. As a result, CSFA will be asking the Feds for additional funding rounds under the incentive grants program.

Conduit Bond Program: Ms. Johantgen informed the members that this topic will be covered later in today's meeting with the presentation of agenda Item #7.

Charter School Facilities Credit Enhancement Grant Program: Ms. Johantgen informed the members that they are at the end of all Credit Enhancement Grant Program allocations with the items being presented today. One is a re-allocation of an existing grant, the other is a new award which will exhaust all of the grant funds if approved.

Administrative and Legislative Update: Ms. Johantgen updated the members of the bill that would allow reimbursement of existing debt to be financed by CSFA. The Bill would allow CSFA to finance and refinance lines of credit on bonds that have been outstanding and that have made it necessary to use outside counsel. Consequently, this would allow the Attorney General's office to step back in and serve as issuer's counsel. Ms. Johantgen stated that the bill has made it through the Assembly and is now moving through the Senate.

Lastly, Ms. Johantgen reported on a BCP that is moving along at the Capitol that would allow for two new positions at CSFA to assist on the state grant program. This would relieve staff to work on other funding programs.

Charter School Facilities Program: Ms. Johantgen reported that applications for this round are due on May 30, 2014 for the \$90,000,000 in grant funds. As of May 14, CSFA received a list of applications totaling \$173,000,000. As expected, this funding round will be over-subscribed.

Resolution No. 14-05 – Authorizing the Issuance of Bonds in an Amount Not to Exceed \$35,000,000* to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Los Angeles County, California

Ms. Johantgen provided an informational report describing the use of proceeds, financial structure, and the project pertaining to this item and asked the financing team to come forward and answer questions. She added that KIPP LA is a long time applicant for various CSFA funding programs. The following participants spoke regarding Agenda Item 4 - KIPP LA: John Buck - Buck Financial Advisors; Marcia Aaron - KIPP LA Schools; Marc Bauer – Orrick; Brian Colon - Robert W. Baird & Co.

The proceeds of the Bonds will be used for the following purposes: (a) financing or refinancing the acquisition of land and the construction of certain educational facilities located at 8466 South Figueroa Street in Los Angeles, California (b) financing the acquisition of land and the construction of certain educational facilities located at 4800 East Cesar Chavez Avenue in Los Angeles, California (the "Cesar Chavez Facility") where KIPP Illuminar Academy and KIPP Sol Academy will operate; (c) funding a deposit into an escrow which will refinance the outstanding loan (the "LA Prep Loan") used to acquire land and to construct certain educational facilities located at 2810 Whittier Boulevard in Los Angeles, California (the "Whittier Facility" and together with the Figueroa Facility and the Cesar Chavez Facility, the "Facilities") where KIPP LA College Preparatory School currently operates; (d) funding a reserve fund with respect to the Bonds; and (e) paying costs of issuance for the Bonds (collectively, the "KIPP LA Projects"). The anticipated rating is a BB+ (S&P), Structure: \$29,820,000 (Tax-Exempt) and \$295,000 (Taxable) and method of sale is a Limited Public Offering (dependent on final rating).

Michael Paparian, Board Chair, asked members of the financing team why this type of structure, with all the various entities involved is necessary for this type of transaction. The response was that the important piece is that the schools are the Lessees, and the Borrower serves as the Landlord of the facilities. This structure preserves the SB 740 allocation. This financial structure was discussed at length and the intercept method will be utilized for repayment. It was noted that this is one of the largest transactions ever brought before this board. Staff recommends CSFA approve Resolution Number 14-05 in an amount not to exceed \$35,000,000.

It was moved, seconded, and passed unanimously to adopt Resolution No. 14-05, Authorizing the Issuance of Bonds in an Amount Not to Exceed \$35,000,000* to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Los Angeles County, California

Resolution No. 14-06 – Authorizing the Issuance of Bonds in an Amount Not to Exceed \$8,000,000* to Finance Working Capital, and the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Los Angeles County, California

Ms. Johantgen reported that this item was brought before the board at its meeting of February 12, 2014. At this time the financing team is requesting that, the refinancing of a line of credit used to finance pre-construction expenses, be included in the bond financing as it is

an eligible bond related expense. As this expense was not contemplated when the financing was brought to the board in February 2014, a new bond resolution, Resolution 14-06, is required.

Staff recommends that the Board adopt Resolution No. 14-06, authorizing the issuance of bonds in an amount not to exceed \$8,000,000 to finance working capital, and the acquisition, construction, expansion, remodeling, renovations, improvement, furnishing, and equipping of educational facilities located in Los Angeles County.

It was moved, seconded, and passed unanimously to adopt Resolution No. 14-06, Authorizing the Issuance of Bonds in an Amount Not to Exceed \$8,000,000* to Finance Working Capital, and the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Los Angeles County, California

Resolution No. 14-07 – Authorizing the Issuance of Bonds in an Amount Not to Exceed \$22,000,000* to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Los Angeles County, California

Ms. Johantgen introduced Mr. Parker Hudnut, CEO of ICEF, who walked the board members through a timeline and explanation as to why the financing was before the board for an extension. Mr. Hudnut explained that the transaction was ready and at the last day that the public could appeal the financing, a private citizen came forward with an appeal. The appeal period will end on June 17th and ICEF is hopeful that they will be able to move forward with the sale of bonds. At this time, ICEF is requesting that the board adopt Resolution 14-06 authorizing the sale of bonds for the project. Staff has included a four-month expiration (September 14, 2014) for this bond resolution. If ICEF is unable to sell bonds by this date, ICEF will need to return to the Authority board for a subsequent authorization.

Staff recommends that the Board adopt Resolution No. 14-07, authorizing the issuance of bonds in an amount not to exceed \$22,000,000 to finance the acquisition, construction, expansion, remodeling, renovations, improvement, furnishing, and equipping of educational facilities located in Los Angeles County.

It was moved, seconded, and passed unanimously to adopt Resolution No. 14-07, Authorizing the Issuance of Bonds in an Amount Not to Exceed \$22,000,000* to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Los Angeles County, California

Resolution No. 14-08 – Approving the Charter School Facilities Credit Enhancement Grant Program (CDFA #84.354A) Awards in an Amount Not to Exceed \$1,832,135* to be apportioned among the schools listed in Exhibit A Located in Los Angeles County, California

Ms. Johantgen reported on the schools provided on Exhibit A with two eligible applications set to come to the board in May for a Program award determination, CSFA staff reviewed Section 10196(d) of Program regulations for guidance on how to allocate the award at this time. Section 10196(d) states that, "Grants under the Program shall be available and

awarded on a rolling first-come first-served basis to the extent that funding and appropriations are available, and the requirements of the Program are satisfied. The Application review process will remain open only to the extent of available funding and appropriations.”

As ICEF’s application was received in March 2013 and KIPP LA’s in August 2013, staff is using the criteria set forth in regulation to make the determination that ICEF’s application was received before KIPP LA’s application; thus, ICEF was the first-come applicant and is therefore first in line for an award. Staff is recommending that ICEF receive a Program allocation of \$1,430,000, and KIPP LA receive the balance of Program funds, \$402,135.

Staff recommends that the Board adopt Resolution No. 14-08, awarding ICEF a Program award of \$1,430,000 and KIPP LA an award of \$402,135. The expiration of the awards will be consistent with the expiration dates in the bond issuance resolutions.

It was moved, seconded, and passed unanimously Approving the Charter School Facilities Credit Enhancement Grant Program (CDFA #84.354A) Awards in an Amount Not to Exceed \$1,832,135* to be apportioned among the schools listed in Exhibit A Located in Los Angeles County, California

Resolution No. 14-09 – Approving a Financially Sound Determination for the Charter School Facilities Program for Advance/Final Apportionment for Santa Rosa Charter School Located in Sonoma County, California

This item was not presented.

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

Respectfully submitted,

Katrina Johantgen
Executive Director