

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Thursday, July 24, 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
Ian Davis, Program Analyst

The Chair declared a quorum present.

Approval of Minutes

The minutes for the June 26, 2014 Authority board meeting were approved as presented.

Executive Director's Report

Charter School Facility Grant Program: Ms. Johantgen informed the board that staff is working to complete the 2013-14 True-Ups for the Charter School Facility Grant Program, the SB 740 Program. These must be completed by July 31, 2014. In addition, staff is currently working on the 2014-15 advance apportionment; the 50% entitlement for the 2014-15 schools. First apportionments are scheduled to go out by August 31, 2014.

Charter School Revolving Loan Fund Program: Ms. Johantgen informed the board that staff is finalizing the review of the 50 applications that were received. Staff is bringing loan recommendations to the board at today's meeting. Two of the applications are pending as they are still under review and may be brought back to the board at the August 13th meeting.

Additionally, staff will begin the offset process in August and September for the loans that were approved prior to the last fiscal year.

Conduit Bond Program: Ms. Johantgen updated the board that staff is very busy with the Conduit Bond program. CSFA has a number of deals that are close to pricing and closing.

One is the ICEF deal, which was delayed by an appeal from a neighborhood organization, the appeal had a 45 day waiting period, consequently the appeal was denied and the transaction will close in September 2014. Other deals that will be pricing and closing within the next month are; Academia Moderna and New Designs.

Two deals coming before the board is the Downtown College Prep deal that will be presented in August; and early this Fall is a large consolidated refunding and new money financing for Alliance that will be \$70-80 million.

Lastly, Ms. Johantgen informed the members that CSFA has an RFP out to secure an auditing firm for the audit of the SB 99 Conduit Bond as the recent contract has expired after 3 years. The RFP should be available to prospective bidders in early August.

Charter School Facilities Program: Ms. Johantgen reported that 71 applications had been received from OPSC, the applicants are requesting approximately \$662,000,000 which is 6 times subscribed for the \$90,000,000 funding that is available.

Ms. Johantgen informed the members that CSFA will bring two financial soundness reviews to the board at the August meeting. The financial soundness reviews are for schools that have received an apportionment under prior funding rounds.

Ms. Johantgen reported that OPSC is on track and plans to bring the latest funding round before their board in December. As a result, CSFA will be bringing these recommendations before this board in October, November and December.

State Charter School Facilities Incentive Grants Program: Ms. Johantgen updated the members that at the last board meeting, members had approved funding to schools under the 10th Funding Round of the Incentive Grant Program.

Ms. Johantgen informed the members that all of the schools with the exception of one have received their award letters and grant agreements. All of the schools are prepared to submit all of the requested information back to CSFA staff by August 8, 2014, as disbursements are due to begin by September 1, 2014.

Charter School Facilities Credit Enhancement Grant Program: Ms. Johantgen reported that California was not successful in receiving an award for the Credit Enhancement Grant Program that they had applied to the U.S. Dept. of Education in March 2014. This is a highly competitive award that is sought after, out of 9 applicants only 3 were awarded grants.

The award categories are; State Agencies, Non-Profits and Consortiums. Ms. Johantgen stated that the application fee was returned to CSFA and that staff will keep this grant application on their radar and apply next year.

Administrative and Legislative Update: Ms. Johantgen informed the members that CSFA has filled the SSML position in Sacramento. The new manager, Laura Martinez comes to CSFA from the CA Dept. of Social Services and is starting on July 31, 2014.

Lastly, Ms. Johantgen reported that CSFA has received approval for two additional positions under the Charter School Facility Grant Program-SB740. At this time, CSFA has received 44 applications for the SSA position and 14 applications for the OT position. These positions exist in Sacramento.

Consideration of Appeal on Behalf of Schools listed in Table A relating to Ineligibility for the Charter School Facility Grant Program.

The following four schools appealed their ineligibility for the Charter School Facility Grant Program: 1) American Indian Public Charter; 2) American Indian Public High; 3) Eel River Charter; and 4) Community Outreach Public High School.

Ms. Johantgen provided a brief summary of the appeal and informed the members that if the appeal was approved and the four late applicants were deemed eligible for program funding the total request would exceed \$1.4 million. Ms. Johantgen stated that there is capacity in the program for these requests. Despite there being program capacity, staff recommended that the board deny the schools' appeals. Program regulations clearly state the submission deadline of May 12, 2014. CSFA cannot violate Program regulations or make exemptions.

Board member, Kathleen Moore suggested adding a second funding round for this program. In response to this, Mark Paxson, staff counsel, explained that this would require a change in the regulations. Ms. Johantgen stated that staff counsel and CSFA are currently working to revise the regulations regarding the conflict of interest issue and that this new issue is something that could be considered simultaneously so that it could possibly be resolved and implemented this fiscal year as opposed to next fiscal year.

There was discussion about one school operator, American Indian Schools, ability to apply during a charter revocation. Mr. Paxson explained that the schools can file while under a revocation hearing. The trial case will be heard next month. Mr. Paxson said that the school cannot be denied eligibility because of a legal issue; however, legal status can be a factor in determining eligibility. Mr. Paxson stated that today's board action would trigger a review of these appeals.

During the public comment period, Mr. Aaron Thornsberry, Chief Business Officer, Gateway Community Charters apologized for the late application submission and explained that his school was caught off guard with the change in the submission deadline and confused by the names of the programs.

Mr. Colin Miller representing the California Charter Schools Association (CCSA) spoke regarding the past administering of the program by CDE. Mr. Miller noted that under CDE's administration there was no hard submission deadlines, Mr. Miller stated that schools are operating under the assumption that applications would be accepted as they came in. CCSA would encourage and support a flexible deadline while the program is under-subscribed.

Mr. Miller also noted that CCSA sponsors legislation that would expand eligibility for the program, he believes that the threshold of 70% for Free and Reduced Meals is a very high bar and supports legislation would reduce it so that more schools would be eligible.

After much discussion the board members moved to approve the acceptance of the four late applications to be reviewed for eligibility. Ms. Ortega stated that in the future this will not be an open-ended program and that CSFA will adhere to the submission deadlines. CSFA and CCSA will work to better notice the schools in future announcements.

It was moved, seconded, and passed unanimously to approve Consideration of Appeal on Behalf of Schools listed in Table A relating to Ineligibility for the Charter School Facility Grant Program.

Resolution 14-19 – Approval of the Revolving Loan Fund Program Loans for the Schools listed in Table B:

Ms. Johantgen stated that Resolution 14-19 is for the approval of the Revolving Loan Fund Program recommendations and amounts. At the June 11th board meeting, staff had presented an extensive overview of the operational and financial reviews of the Revolving Loan Fund Program.

Staff has brought forth fifteen loan recommendations for approval at today's meeting. Of the 17 that are listed on Table B, two of the schools (Animo Charter and New Horizons) are being held for further review of eligibility and will be brought to the August meeting. Staff is working with these two schools regarding their financial viability and to make loan recommendations. If the two schools do not qualify, staff will bring forward two Academy of Arts and Science schools who submitted late applications.

Presented at the meeting was one Priority 1 school, a new charter school (opening 14-15 FY) and fourteen Priority 2 schools, schools that have been open 1 or more years. Ms. Johantgen provided a handout with the remaining balance and noted that the program has capacity and is not oversubscribed.

Lastly, Ms. Johantgen informed the members that CSFA will not be adding any of the revenue that was offset in August, as this would affect future funding rounds. Ms. Johantgen also added that CSFA is in the process of collecting funds from two schools that have closed. The schools had received SB 740 funds and still owe under the Revolving Loan Fund. These funds will be added to the balance. Ms. Johantgen noted that this funding round will close after the Board Authority's determination at the August meeting.

Staff recommends that the Board adopt Resolution No. 14-19, approval of the revolving loan fund recommendations and amounts to the schools listed on Table B. Staff is charged with providing schools with notification of loan approval, distributing loan agreements, executing loan agreements, and carrying out all necessary steps to disbursing funds to schools.

It was moved, seconded, and passed unanimously to adopt Resolution No. 14-19 with Exhibit A as amended to exclude New Horizons.

Resolution 14-20 – Adoption of the final form of Permanent Regulations for the Charter School Revolving Loan Fund Program and Authorization of the Permanent Rulemaking Process

Pursuant to AB 86 (Chapter 48, Statutes of 2013), the administration of the Charter School Revolving Loan Fund Program (Program) was transferred to the California School Finance Authority (Authority) commencing with the 2013-14 fiscal year. The Program provides for loan funds of up to \$250,000 to new charter schools that are not conversions from traditional public schools. Pursuant to Education Code, Section 41365(h), on January 8, 2014, the Authority approved the emergency regulations that became effective on February 3, 2014 for a period of 180 days (expiration date of August 5, 2014). While the Authority is in the process of converting the emergency regulations to permanent regulations through submission of the Certificate of Compliance, the Authority initiated a request for emergency readopt on July 11, 2014, requesting that the emergency regulations remain in effect for an additional 90 days, in order to complete the Certificate of Compliance prior to the expiration of the emergency regulations. The Authority anticipates that the Notice of Rulemaking Action (initial step in permanent rulemaking process) will be issued within the next 2-3 weeks.

The Authority will be requesting early approval of these amendments so that these amendments can become part of the permanent regulations upon the Office of Administrative Law's approval of the Certificate of Compliance and submission to the Secretary of State. These amendments include the following:

1. Addition of the phrase at Section 10170.19(f), "as of the date of submission of its application," to revise the eligibility criterion to require that the charter school has not renewed its charter as of the date of application submission.
2. Addition of Section 10170.19(j), allowing the Authority to determine that an Applicant is ineligible if, after requesting information, the Application remains incomplete due to a failure to provide requested information;
3. Addition of Section 10170.20(b)(4), allowing the Authority to consider compliance with other Authority Programs as a factor in approving a loan award;
4. Addition of Section 10170.20(b)(5), allowing the Authority to consider good standing in repayment of a previous Program loan by an affiliate of the charter school as a factor in approving a loan award; and
5. Addition of Section 10170.22(b), requiring that each Loan Recipient have a valid County-District-School (CDS) code prior to completion of a Loan Agreement; and
6. Modification of Section 10170.22(g) (formerly 10170.22(f)) to include reference to "charter management organization" as an entity to which the Authority may require a pledge to make annual payments or repay the total outstanding loan amount, in the event that the charter school is unable to repay the loan.

Staff recommends that the Board adopt Resolution 14-20 approving the proposed permanent regulations for the administration of the Charter School Revolving Loan Fund Program. If approved, the Executive Director will include the resolution demonstrating board approval with the rulemaking file for the Certificate of Compliance.

Ms. Johantgen informed the members that these changes would be in effect for future funding rounds. Most of the requested changes are technical changes and one, the Eligible Applicant, Section 10170.18(j) that relates to setting a standard deadline for requested information in order to reduce the time it takes to determine eligibility.

The board members deliberated the addition of Section 10170.18(j), and determined that this addition requires the inclusion of a specific timeframe defined by the number of days.

It was moved and passed adopt Resolution No. 14-20 – Adoption of the final form of Permanent Regulations for the Charter School Facility Grant Program and Authorizing the Permanent Rulemaking Process, as amended to Section 10170.18 (j) to change the language from **shall** be eligible to read **may** be eligible.

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

Respectfully submitted,

Katrina Johantgen
Executive Director