

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, August 13, 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
Laura Martinez, Manager
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 July 24, 2014 Authority board meeting were approved as presented with minor corrections due to three typos.

Executive Director's Report

Charter School Facility Grant Program: Ms. Johantgen informed the board that staff is working to complete the processing of the 2013-14 True-Ups for the Charter School Facility Grant Program, the SB 740 Program. Ms. Johantgen stated that the majority of schools will be made whole, CSFA is in the process of disbursing funds or notifying schools that they owe money back to the State given the issue with the federal incentive grant.

Ms. Johantgen informed the members that due to a recent short staffing issue, the priority is to get the schools with lease costs only completed first, followed by schools that are maxing out at ADA, given the \$750 per ADA. Last to be addressed will be schools that owe funds to the State. Staff is working with its legal counsel on an e-mail and a process for schools to repay funds back to the State.

In addition, staff will be also working on the 2012-13 schools and one box of 2011-12 requests for funding that was received recently. Ms. Johantgen stated that CSFA and STO has the legal appropriation to get that money out, hence, CSFA will be working through the applications that were received recently on behalf of those schools to disburse funds.

Charter School Revolving Loan Fund Program: Ms. Johantgen informed the members of one last review for consideration that will be presented today. The remaining balance in the RLF program is \$250,000. Ms. Johantgen stated that amount will be enough to accommodate one additional loan.

As reported last month, two schools were brought before the board, staff reviewed the applications for capacity to repay the loan with the intercept mechanism. After the review, one school cleared and after many attempts it was determined that the other school is still operating in the red. As a result it was reported that New Horizons will come before the Board today for consideration.

Following a Board directive resulting from a previous meeting regarding the Board's deliberation of ten late applications, staff has asked the charter operator to prioritize their list of loans so that the list can be brought before this Board at next month's meeting.

Ms. Johantgen informed the members that CSFA will be looking into releasing funds from the Security Fund this Fall. Staff is reviewing the fund's legislative intent to determine how and why the fund was created and the how much and when funds can be released. CSFA is seeking to release funds from the Security Fund that are well within the means of the fund's legislative intent. Ms. Johantgen will be reporting in the future on the outcome of this information.

Lastly, Ms. Johantgen reported on some loan approvals where staff is waiting for three schools to submit their missing CDS codes or charter numbers. Of the loans that were approved, the schools were given a period of time to return their loan agreements and the Board Resolutions approving the loan agreement. Once these documents are received by CSFA, staff can then begin the process of disbursing the \$250,000 in loan proceeds to those schools. Currently there are four schools remaining in this file to be processed.

Conduit Bond Program: Steven Theuring, CSFA analyst, reported on the Conduit Bond Program. Mr. Theuring informed the members that in addition to the report that was given to the members, there is one additional bond transaction for New Designs that closed yesterday for \$7.38 million.

Mr. Theuring informed the members that all figures on the report are truly reflective of the actual amounts. He added that every six months he contacts all of the trustees for the Appendix A for PFD. All of the reported figures are updated as of June 30, 2014.

Lastly, Ms. Johantgen highlighted information to the members regarding a bond financing for Magnolia Science Academy that the Board approved in November 2013. The bond closed on June 26, 2014. On June 27, 2014, the Magnolia Educational Research Foundation (MERF) received notification that LAUSD would not be renewing two of their charters, ostensibly revoking the two charters. Consequently, this brought to light a lot of

concern from the investors. On July 3, 2014, MERF responded to the non-renewal of charters and the allegations of financial mismanagement that were raised by LAUSD.

That same day, MERF filed a lawsuit against LAUSD to compel the school district to recognize the automatic renewal and to enjoin LAUSD to not take any action to interrupt any operation or funding by the schools.

On July 25, 2014, the LA County Superior Court granted MERF's motion for preliminary injunction enjoining LAUSD from taking any action to implement the non-renewal of charters. The lawsuit is not over, however, as the questions of automatic renewal have not been resolved. The ruling stated that the school may continue to operate as if their charters had been renewed while these issues are litigated or resolved.

On the same day, MERF posted a disclosure with the SEC's EMMA system informing the Series 2014 bond investors of the non-renewal issue and of the ensuing litigation. The following week RBC Capital Markets, the underwriters, purchased the bonds back from the original investors and it is now the current owner of the bond. The amount of this bond is \$7.02 million.

CSFA staff has been informed that RBC Capitol Markets does not intend to remain holder of this bond to maturity. RBC Capitol Markets, the borrowers and staff counsel are in discussion as to the what ultimate disposition of the bonds will be. CSFA staff will keep the Board informed of any future developments related to this bond financing.

Charter School Facilities Program: Ms. Johantgen reported that two financial soundness reviews will be presented to the board today. Staff will notify OPSC of this board's determination regarding the financial reviews. The schools will be put on an unfunded list as there is no cash at this time. In the weeks to follow, staff will be reviewing the preference points assigned by OPSC to the approximately 20 applications that are at hand. Staff will then begin assigning the highest ranking applications.

State Charter School Facilities Incentive Grants Program: No reporting.

Charter School Facilities Credit Enhancement Grant Program: Ms. Johantgen stated that there was not much to report other than CSFA is waiting for an ICEF financing to close, the last financing to utilize \$1.43 million in award money.

Administrative and Legislative Update: Ms. Johantgen introduced Ms. Laura Martinez, CSFA's new manager. Ms. Johantgen informed the members that CSFA has two additional positions in the budget and has interviewed a number of strong candidates. Ms. Johantgen is hoping to make offers next week.

Consideration of Appeal on Behalf of Western Center Academy relating to ineligibility for the Charter School Facility Grant Program.

Appealing on behalf of the Western Center Academy was Mr. Paul Bailey. Mr. Bailey stated that the school was not notified of the deadline and cited that it was due to an e-mail address issue. To his knowledge the school did not receive notification of the change in timeline for the application and that his staff was working within the timeline from their previous experience with the grant program.

Mr. Bailey said that the Charter School Facility Grant Program is a critical part of their funding and not being able to participate would have dire implications for their academic program. Mr. Bailey has requested the opportunity to discuss this situation and to submit a late application on behalf of the school.

CSFA staff was able to identify that an e-mail was sent to the school in April (along with all other California charter schools) but the school stated they did not receive the e-mail notification. At this time, the school is formally appealing staff's finding of ineligibility, and is exercising its right to appeal staff's determination to the Board.

Staff is recommending that the Board deny the appeal by Western Center Academy. Program regulations clearly state the submission deadline.

After much discussion regarding how to better notify schools of future programs, events and pertinent information related to Charter Schools, the Board members approved Western Center Academy's appeal to submit a late application to the Charter School Facility Grant Program.

One board member motioned that in future programs no appeals will be approved as information will be available on CSFA's website. That past appeals have been granted due to this year's transition of the program to CSFA. Lastly, Ms. Johantgen added that another appeal will be coming to the board in September with similar circumstances.

Resolution 14-21 Approval of the Revolving Loan Fund Program Loans each in the Amount of \$250,000 for Amino Charter Middle School and New Horizons Charter Academy located in L.A. County.

At this time only New Horizons Charter Academy will be presented.

Ms. Johantgen stated that Resolution 14-21 is for the approval of the Revolving Loan Fund Program recommendations and amounts. At the June 11, 2014 board meeting, staff presented an extensive overview of the operational and financial reviews of the Revolving Loan Fund Program. Ms. Johantgen stated that the review process took longer for these two schools. New Horizons Charter Academy is a priority two school.

Staff is recommending that the New Horizons Charter Academy be awarded a loan as presented in today's meeting.

It was moved and passed to adopt Resolution No. 14-21 approving a Revolving Loan Fund Program loan in the Amount of \$250,000 for New Horizons Charter Academy located in L.A. County.

Resolution 14-22 Approval of a Financial Soundness Determination for the Charter School Facilities Program for Advance/Final Apportionment for Our Community School located in L.A. County.

Ms. Johantgen presented and highlighted key criteria that was evaluated when staff conducted their financial soundness review of OCS. Detailed information is contained in the report given to the Board members for this determination of a final apportionment.

Staff recommends that the Board determine that Our Community School (OCS) is financially sound for the purposes of the Charter School Facilities Program final apportionment. The determination for final apportionment is in place for six months and assumes no financial, operational, or legal material findings within this time period. The recommendation is contingent upon OCS electing to have its CSFP payments intercepted at the state level, pursuant to the Education Code, Sections 17199.4 and 17078.57(a)(1)(A).

Ms. Johantgen stated that OCS is seeking \$6.5 million to rehabilitate an existing district facility. Ms. Johantgen noted that OCS does not rely on aggressive enrollment growth to meet debt service in future years. Regarding their academic performance, they are not meeting AYP, however, they are meeting state standards as related to API, statewide growth targets as well as comparable school targets as reported data in the last three years.

It was moved and passed unanimously to adopt Resolution No. 14-22 approving a financial soundness determination for the Charter School Facilities Program for a final apportionment for OCS.

Resolution 14-23 Approval of a Financial Soundness Determination for the Charter School Facilities Program for Advance/Final Apportionment for Santa Rosa Charter School located in Sonoma County.

Ms. Johantgen reported to the members that Santa Rosa Charter School for the Arts (SRCSA) is seeking approval of a final apportionment for new construction and rehabilitation funding. OPSC looks at these as two separate projects. Ms. Johantgen stated that the financial analysis is the same for both projects. CSFA staff has broken up the project costs separately. Ms. Johantgen gave a brief report on the school's debt service, student performance and eligibility. Ms. Johantgen informed the Board that the school met all program eligibility.

A detailed staff report was provided to the Board highlighting information pertinent to the approval of a financial soundness determination for a final apportionment.

Staff recommends that the Board approval a final apportionment for SRCSA.

It was moved and passed unanimously to adopt Resolution No. 14-23 approval of a financial soundness determination for the Charter School Facilities Program for final apportionment for Santa Rosa Charter School.

Resolution 14-24 Authorization of the Issuance of Bonds in an Amount Not to Exceed \$10,000,000 to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Santa Clara County, California.

- Underwriter: Stifel Nicolaus & Co., Inc.
- Financial Advisor: Urban Futures Incorporated
- Bond and Disclosure Counsel: Orrick Herrington & Sutcliffe, LLC
- Trustee: Wilmington Trust, N.A.
- Borrower and Owner of Facilities: DCP FACILITIES 1, LLC
- Owner of Land: Alum Rock Union Elementary School District
- User of Facilities: Downtown College Preparatory – Alum Rock

Ms. Johantgen informend the members that this item relates to a bond financing and stated this is a first financing for Alum Rock being brought to CSFA.

Ms. Johantgen reported that members of the financing team were present: John Kim and John Szarnick underwriters with Stifel Nicolaus & Co., Eugene Clark-Herrera, Bond Counsel, Orrick, Herrington & Sutcliffe.

Ms. Johantgen reported that staff is keeping track of the cost of issuance for the benefit of the Board and keeping track of the total underwriter's discount and the cost of issuance. CSFA staff vet these costs with colleagues at the Public Finance Division and compare total costs with past deals/transactions. Typically the underwriter's discount is at 1.4 percent however the underwriter's discount for this transaction is at 2.25 percent.

Mr. John Kim, Managing Director, Stifel, Nicolaus & Co. spoke regarding the higher percentage for the underwriter's discount. He explained that this is Alum Rock's first attempt into the capital market. Mr. Kim stated that the financing team conducted much work and there were long negotiations with Alum Rock as they do not own the land. It was the first time getting a credit rating for Alum Rock. The borrowers do not own the facility and this created long negotiations for a ground lease. This is unusual for most transactions as there is a pledge of the land where charter schools usually own the land. In this case it is a ground lease and this makes the transaction riskier. Mr. Kim added that the negotiation for the ground lease and consideration of trying to sell the transaction has added to the variance with respect to the fees that are presented.

Lastly, Mr. Kim walked the members through the timing of the transaction's pricing and closing. Posting a limited offer in late August. Bringing to market during the first week of September and closing by September 18, 2014.

Staff recommends the board approve the authorization of the issuance of bonds.

It was moved and passed unanimously to adopt Resolution No. 14-24 authorization of the Issuance of Bonds in an Amount Not to Exceed \$10,000,000 to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Santa Clara County, California.

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

Respectfully submitted,

Katrina Johantgen,
Executive Director