

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, September 10, 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
Jodie Jones, Program Analyst

The Chair declared a quorum present.

Approval of Minutes

The minutes for the August 13, 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 making progress working on the Charter School Facility Grant Program; the SB 740 Program. Staff has been working on a daily basis to process the disbursements. Ms. Johantgen stated that staff has experienced hold-ups on 13-14 true-ups for schools that have submitted invoices. CSFA staff is discussing the possibility of rectifying this process by having the schools populate an expense report which will make the auditing process easier. Ms. Johantgen stated that the "lease only" true-ups have been easily processed.

Ms. Johantgen updated the the board that of the 339 schools that were processed, only 35 schools are no longer eligible. Notices have gone out to the schools and staff has received letters from the schools appealing their ineligibility notices. Ms. Johantgen informed the members that two appeals regarding those determinations will be coming before the Board at the October board meeting.

Ms. Johantgen explained that the FRPM data used by staff is from the K-12 grade data column instead of the 5-17 age column to determine eligibility. Staff has utilized this internal practice since July 1, 2013 and has utilized this same data column for every application received at CSFA.

Additionally, CSFA is contemplating a regulation change under the SB 740 program related to conflict of interest and other matters, as well as expansion of the program pursuant to AB 948; changing the 70 percent threshold to 60 percent, if funding is available. CSFA hopes to work in whichever data point is to be used in the regulations so that CSFA may have a more defensible position, as there is a need to be uniformed and consistent in how the data is used.

Charter School Revolving Loan Fund Program: Ms. Johantgen updated the members that the Board had been presented with 41 loan applications, of those 40 have been sent to STO Accounting for disbursement. There was one school that was unable to convert, due to not being able to acquire a CDS code, which is one of the criteria required to obtain a loan through the program.

Ms. Johantgen informed the members of two loan applications that are coming before the Board for consideration. They are from the Academy of Arts and Science and are from a Board directive resulting from a previous meeting regarding the Board's deliberation of ten late applications. The RLF program as a little over \$500,000 to accommodate these requests providing that the Summitt Charter School application drops out. Hence, CSFA will be bringing these recommendations to the October meeting.

Conduit Bond Program: Ms. Johantgen updated the members and explained that the Authority is finally pricing the ICEF deal. ICEF has until September 17, 2014 to price their bond and sign a BPA. Additionally, CSFA is pricing the Downtown College Prep deal that was approved last month. Over the next few weeks they need approval from the ALUM Rock Union High School District at a board meeting this coming Thursday. They require an amendment to a ground lease in order to sell the bonds. CSFA is currently waiting for the amendment.

Ms. Johantgen mentioned that there may be additional deals coming before the Board in November, one being a large refinancing for Alliance. This understanding comes from CSFA's conversations with bankers regarding the possibility of additional deals.

Charter School Facilities Program: Ms. Johantgen reported that a financial soundness review will be brought to the board in October for a Magnolia School; the Pacific Technology School in Santa Ana. This comes in light of a state audit of the Magnolia organization. CSFA plans to move forward and conduct the school's financial soundness review for the program.

Ms. Johantgen informed the members that CSFA is working with OPSC, which have sent their top six schools along with OPSC's own funding matrix. This is for the \$90 million in available funding. CSFA will likely double the number and bring to the board these financial soundness recommendations over the October through December timeframe.

State Charter School Facilities Incentive Grants Program: Ms. Johantgen updated the members that CSFA had made awards at the end of June. The schools had until August 22, 2014 to get their grant agreements in place with any pending certifications that were needed in order for disbursements to be made in September, this is in addition to the ongoing schools that were already in the program.

Unfortunately, due to CSFA overseeing the SB 740 program, CSFA had to send letters to the schools notifying them that they would no longer be receiving the Federal program funding because they are in the State program. Ms. Johantgen explained that the State program is an annual award and the Federal program is a three year award. Therefore, CSFA cannot violate the Supplant-Supplement rule that governs the federal program.

Charter School Facilities Credit Enhancement Grant Program: Ms. Johantgen reported that CSFA is in the process of pricing the ICEF financing, there is a pre-pricing today and a pricing tomorrow.

Ms. Johantgen stated that there will be approximately \$50,000 to \$100,000 remaining in Credit Enhancement Grant proceeds which will be coupled with the \$53,000 that is available. Currently, CSFA does not have an application in house for that funding. CSFA will have to notify the schools that are coming in of the existence of this available funding in the Credit Enhancement program. CSFA plans to work at the staff level to get notification and funding out to the charter community.

Administrative and Legislative Update: Ms. Johantgen reported of the passage of Nazarian's bill, AB 1979 which is effective January 1, 2015. It will allow the CA Attorney General's Office to come back and serve as Issuer's counsel. The passage of this bill amended a section of the CSFA Act where currently there is a \$4 billion cap in bond issuance if the financing utilizes the Intercept mechanism and a \$400 million cap in bond if the intercept is not used. With the passing of the bill these cap amounts will be rolled into one number.

There were a couple of technical changes, the most significant change is that it will allow a refinancing to be considered an eligible cost. Ms. Johantgen mentioned that AB 948 is enrolled and will expand the SB740 Program. CSFA is working with the Charter School Association to determine the extent and demands to the program. This will go into effect on January 1, 2015. CSFA will keep the members apprised of this information.

Appeals: Ms. Johantgen stated that there are a total of five schools that are appealing their ineligibility for the Charter School Facility Grant Program. Of those, only three schools are present at today's meeting and noticed in the Agenda. Additionally, Ms. Johantgen is requesting that the board allow the remaining applications of the schools that were not noticed today to be reviewed and processed at the staff level providing the board does not grant the appeals for review being presented today.

Ms. Johantgen informed the members that representatives of the various schools are present at today's meeting to appeal on behalf of their school.

Regarding Yuba Environmental's appeal, Ms. Johantgen explained that Yuba Environmental Science Charter Academy's application was received on May 13, 2014 (the submission deadline was May 12, 2014). The school alleges it did not believe it was eligible to apply because they were in discussions to purchase the site they are housed. On May 12th, the school's back office provider, Charter School Management Corporation, notified the school on May 12th that they were eligible to apply for the grant. The school believed the application needed to be postmarked on the 12th, not received on the 12th. School personnel tried faxing or e-mailing the application, and were notified that the application needed to be mailed, and that faxed or e-mailed applications were not accepted. Representatives of the school drove to CSFA's Sacramento office and attempted to hand deliver the application. Unfortunately, they did not make the 5:00 PM deadline. Present at today's meeting were Mr. Nick Driver, CSMC, Mr. Paul McGovern, CFO, and Ms. Kathy Smith, Principal.

Appealing on behalf of Yuba Environmental Science Charter Academy were Mr. Paul McGovern and Mr. Nick Driver who spoke and explained the importance of SB 740 funding to the rural school of 100 students in Yuba County. They explained to the members that \$45,000 is a significant amount and represents 7 percent of the school's entire budget. They told the members of the miscommunication issue with the school's provider which was resolved on the date of the submission deadline. The site was not purchased which enabled the school to apply for the SB 740 funding.

Lastly, Ms. Kathy Smith and explained that the school made a good faith effort to post mark, email, fax and attempt to deliver the application in a timely manner. She physically delivered the late application the following day. All of the speakers thanked the board members for the opportunity to have their appeal heard.

Ms. Johantgen said that staff had vetted the application and that the school met the eligibility criteria and eligible costs based on its initial review. Furthermore, Ms. Johantgen added that there is capacity in the program to accommodate this request.

Next, Ms. Johantgen presented the appeal for Ipakanni Early College Charter School:

Ipakanni Early College Charter School believed that the due date for the application was September 9th, as was the year before. The school is a former recipient of the grant and claims that they never received an e-mail notification from CSFA about the application due date of May 12, 2014 for 2014-15. Based on staff's review of the email notification, Ipakanni was sent the email notification, but school representatives claim they never received it.

Lastly, CSFA's staff summarized that Learning Community Charter School has experienced a high volume of staff turnover and therefore the school's application failed to get completed and submitted by the due date. School officials report that these grant funds have been an integral part of the school's annual budget since 2009 "the school would suffer a substantial financial hardship without the grant."

Ms. Johantgen introduced Ms. Lisa Anderson, Director of Fiscal Services and Ms. Regina Storey, Accountant, Butte County Office of Education.

Ms. Anderson appealed on behalf of the school that due to the high turnover of staff and the program's transition this year to CSFA, there occurred an oversight when she and Ms.

Storey were reviewing the school's annual budget. It is then that they discovered that an application had not been submitted. They apologized for the oversight and vowed that this would not occur in the future. Both thanked the members for allowing that their appeal be heard.

Ms. Johantgen added that there is capacity for all of the schools in today's presentation, that staff had conducted a preliminary review of those schools presented in the meeting and all had met the eligibility criteria.

It is staff's recommendation that the board deny the appeal by the aforementioned schools. Program regulations clearly state the submission deadline. Whereas they are empathetic to the financial ramifications this denial may have on the school, they cannot violate program regulations or make exemptions for some schools.

Mr. Paparian explained that the Board would be less tolerant of any appeals coming before the board next year. 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. It was determined by the Board that any remaining appeals for review will be presented at the October board meeting.

Ms. Johantgen added that CSFA is working to better inform stakeholders and interested parties in January 2015 with an informational newsletter posted to CSFA's website. It is CSFA's desire to be proactive in the notification of future programs with continuous updates to the Authority's website.

After much discussion by the board members regarding the operation of the program, the allotted annual budget for this program, and the many appeals presented to the Board since the submission deadline. It was determined that in the future there will be no appeals for review granted as their will be a definite cutoff of the program deadline. This is attributed to the problems and issues experienced due to the program's transition to CSFA and the change of application deadline for this funding program under CSFA. The board members expressed concern regarding the monthly re-occurrence of endless appeals coming before the Board. In the end the board members approved the aforementioned schools appeals to submit a late application to the Charter School Facility Grant Program.

Resolution 14-25 – Adoption of Policies

Ms. Johantgen revised this agenda item at the prior briefings with the board members, she explained that the item required additional deliberation and consideration from stakeholders and interested parties in the charter school community. CSFA is waiting for comments and is requesting additional time to process the responses regarding an informational memo pertaining to the adoption of a financing team policy that was sent to the charter school community. Ms. Johantgen has requested that this item be presented and that an approval be delayed until a future date.

Ms. Johantgen and Mr. Mark Paxon, Staff Counsel, explained and highlighted five separate items in the summary report that was provided to the members:

RE: Consideration of Adoption of a Financing Team Policy

Since 2010, the California School Finance Authority (CSFA) has served as conduit issuer on 34 bond or note transactions for charter schools totaling over \$350 million. After four years of serving as an issuer to charter school borrowers, a number of issues have arisen related to: (1) certain practices of financing team members on CSFA financings; (2) the fees charged by some financing team members; and (3) the relatively high interest rates on some transactions. Given these issues, staff proposes that the CSFA Board adopt the following policies:

1. Require that compensation for financial advisors retained by charter school borrowers comply with Government Code section 53592.
2. Require a certification from financial advisors retained by charter school borrowers that they will comply with recently adopted rules governing municipal advisors.
3. Require underwriters and placement agents to provide disclosures required by the SEC and MSRB at the time any charter school submits a financing application to CSFA and that such disclosures be simultaneously provided to the charter school borrower.
4. Require that proposed fees for all financing team members be disclosed with the financing application and that where the charter school borrower retains a financial advisor that the advisor provide the charter school borrower and CSFA with a written analysis of the fees paid to the financing team members.
5. Require that for any private placement where there is a financial advisor that the financial advisor provide a memo to CSFA justifying the interest rate and transaction negotiated between the parties.

It was determined by the Board that they would wait for additional comments to be reviewed before approving this request for the Adoption of a Financing Team Policy. The board members encouraged CSFA to continue working on this policy. This item will be brought back to the board at a later date.

Ms. Johantgen introduced Ms. Jodie Jones, CSFA's newest employee. Ms. Jones is new to state service and brings with her a legal review background. Ms. Johantgen informed the members that CSFA has hired a new Office Technician, Nicolaus Seppi, who will be joining CSFA on September 15, 2014. Both Ms. Jones and Mr. Seppi will be based in the Sacramento office.

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

Respectfully submitted,

Katrina Johantgen,
Executive Director