

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

**Wednesday, October 15, 2014
1:00 p.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
Nicolaus Seppi, Office Technician

The Chair declared a quorum present.

Approval of Minutes

The minutes for the September 10, 2014 Authority board meeting were approved as presented.

Executive Director's Report

Ms. Johantgen informed the Board that the CSFA staff continues to be extremely busy. She informed the board that we are working on an internal staffing study, monitoring staff time throughout the day, and analyzing how resources are allocated. She stated that the study will lead to the attainment of greater resources to carry out program functions in a timely and efficient manner.

Charter School Facility Grant Program:

Ms. Johantgen notified the Board that most staff time is currently being spent finalizing 13-14 final disbursements and true up work. Some advance disbursements have gone out for 14-15, as well as clean up on 11-12 and 12-13 schools, as funds are still available in those

fiscal years. CSFA is working with charters and back office providers to clear receivables and get these funds to eligible schools and costs.

Charter School Revolving Loan Fund Program:

Ms. Johantgen informed the Board that the last two loan applications for the 13-14 Funding Round were coming before the Board for consideration of loan approval at today's meeting.

Conduit Bond Program:

Ms. Johantgen informed the Board that at their last meeting they had approved financing Downtown College Prep, but that the school has decided not to issue bonds through CSFA, and instead decided to secure a loan from a CDFI. At this meeting, the Board will be considering the approval of privately placed bonds for High Tech High.

Charter School Facilities Program:

Ms. Johantgen told the Board that the staff is evaluating schools for awards for approximately \$90 million currently available. This round is a result of rescinded / unused funds from previous funding rounds. Staff is also working on three additional reviews: MSA Santa Ana, Futures and Higher Learning Academy. These additional reviews are for schools that are seeking Advance or Final Apportionments through the program.

State Charter School Facilities Incentive Grants Program:

Ms. Johantgen told the Board that staff is working through Round 10 disbursements. September disbursements have been sent out and staff will begin working on October disbursements. For those schools that received funding in 13-14 from Incentive Grants and SB740s programs, staff stopped disbursement of the schools' federal awards if they were eligible for SB740.

Last Friday, staff was notified that CSFA received another \$50 million award through the incentive grants program. CSFA will work with the charter community (and through regulations) to determine how to better coordinate both programs going forward.

Charter School Facilities Credit Enhancement Grant Program:

Ms. Johantgen informed the Board that about \$143,000 is left in the program, and that CSFA is waiting for the next bond deal to come in and qualify for this funding opportunity.

Administrative and Legislative Update:

Ms. Johantgen reported that since the last Board meeting, AB 948 passed, which will expand eligibility under CSFGP from the current 70% threshold to 60%, 1% at a time if money is left over that year. This will make things tricky, as staff will not know what is left over until they are finished with true up work. It also means staff won't know if applications should be accepted or held for later evaluations. CSFA is working through these logistics. AB 948 will take effect on January 1st, 2015, so CSFA will be working with stakeholders on how to implement changes and will bring the decisions to the Board via program regulations.

Item 4: Consideration of Appeals

Ms. Johantgen called Ian Davis before the Board to discuss Item 4 regarding appeals under CSFGP. Mr. Davis informed the board that five schools; River Oak Charter School, KIPP Adelante Preparatory Academy, San Diego Cooperative Charter School, Summit Public Schools Shasta, Nevada City Schools of the Arts all submitted 2014-15 applications past deadline of May 12th. Because they were received after deadline, staff recommends denial of appeals. Currently, Summit Public School Shasta is not applicable as their FRPM is below 70%, but that might change after true up process. After AB 948, they will still not be eligible. They are relying on the local public school, Garden Village Elementary School, whose current FRPM is at 67%.

The Board confirmed that if Shasta was to be approved, the 70% rule for FRPM would be violated. Ms. Johantgen noted that the Board could hold the application until the end of the year and if Garden Village exceeded 70% FRPM, Shasta would be eligible after true up work. The process is done with the other applications as well.

The Board had a policy question in regard to the previous situation, where Charter Schools are told they are eligible and finance accordingly through the year, but are later deemed not eligible due to their final FRPM data falling below the 70% threshold. This is problematic, and the Board suggests a resolution could be to make it time certain. When a school applies for grant funds, the initial eligibility decision should be based on FRPM at that time instead of granting retroactive eligibility to schools whose FRPM later in the year meet the 70% threshold. Ms. Johantgen told the Board that statute, not policy guides this final true up analysis. According to statute, after 60 days of receiving P2, ADA, and FRPM data from CDE, CSFA is to conduct its true up work – there is no flexibility with this review.

Ms. Johantgen further explained that if FRPM drops below 70%, schools are no longer eligible for their award, and the school must repay previous apportionments. Additionally, if ADA drops and results in a reduced award amount, schools can be asked to repay apportionments. The Board suggested that CSFA may want to see if the statute is appropriate as a working policy for charters, as they will need to be less reliant on this funding if their FRPM percentage is near 70%. Ms. Johantgen suggests that those in the 67%-72% FRPM range not bank on the award, as drops in FRPM happen. There can be anomalies through CALPADS reporting and schools appeal with them. Some schools are close at 69% but CSFA won't round it up due to SB 740 requiring 70%. CSFA will attempt to work on a legislative fix for this problem next year.

The Board asked if there were other appeals. Ms. Johantgen responded that there were others coming in November or December related to FRPM. Schools have 14 days to appeal findings, and CSFA has 14 days to respond back, then they can come to the Board. We are waiting for that timeline on FRPM appeals.

The Board asked how a school appeals a true up number. Ms. Johantgen responded that some go to CALPADS to appeal their FRPM data. CSFA has extended the schools' response time to 14 days due to difficulty contacting CALPADS. At least one school wants to use ages (5-17). CSFA uses grade levels served (K-12) for schools; therefore we will put in our regulations that we use K-12. For instance, one school's 12-13 FRPM figure was over

80% and their 13-14 number was around 59%, and therefore, the school was convinced their CALPADS number was wrong.

Ms. Johantgen informed the Board that today is the deadline to accept applications of new and relocated schools, and CSFA will be receiving applications until 5:00 P.M. today for schools meeting those criteria. By notifying schools of this deadline, many schools telephoned CSFA that had missed the May deadline but still wanted to put in an application. It has been a big problem this year. Board members expressed that they will be less empathetic to the issue in a second year of CSFA administering the program. Mr. Paxson stated that this year there are still some excuses due to deadline change, but at some point there needs to be responsibility on the schools' end.

The California Charter Schools Association was not able to attend the board meeting but it is sympathetic to the needs of its member schools and thanked the Board for allowing late applications to be accepted. It is also aware of CSFA's workload and the need for deadlines.

The Board asked if there was any public comment on this matter and no public comment was brought forward. The Board seems to be more reluctant to grant appeals, and will likely stop next year.

There is no resolution for the Appeals. Mr. Paxson asked if we were granting appeals to all of the schools, since the Summit school appears to be ineligible. The Board is granting appeals to look at their applications, and is not currently addressing the schools' FRPM appeal.

The Board decided to vote on what was before them from the 14-15 appeals. The 13-14 appeal decision will wait until members have more information and the application is noticed. The Agenda does not give years, but the staff summary mentions 14-15. The Board voted to approve the appeals before them, noting that only the 14-15 KIPP application was eligible for staff review. Board approved unanimously. Ms. Johantgen thanked the presenters.

Item 5: Resolution 14-25 HTH Bond Issuance

Ms. Johantgen informed the Board that Item 5 relates to a private placement of existing debt of less than \$13.5 million for High Tech High. HTH will privately place the bonds with a family trust. Proceeds of the bonds will benefit six HTH schools. As this is a private placement, the financing team consists of bond counsel, trustee, CSFA, issuer's counsel, and PFD as agent for sale. All costs of issuance will be paid by HTH, and that HTH will pay an interest rate of 3.46% on the bonds. The Board asked why High Tech High was refinancing with CSFA, and not the original issuer. Eugene Clark Herrera from Orrick (serving as bond counsel) informed the board that the investor wanted access to CSFA's intercept mechanism.

Mr. Paparian asked if there was public comment, and Ms. Johantgen informed the board there was no public comment delivered by the TEFRA. The Board moved to vote. The Board approved the item unanimously.

Item 6: Resolution 14-26 Approval of Loan Approval for \$250,000

Ms. Johantgen highlighted for the board the last paragraph of the staff summary which sets forth why CSFA is looking at two loans today. In 13-14, the Authority received fifty applications on time and ten late. The Board instructed staff to look at fifty applications with the priority one schools first, priority two second, then start the review of late applications should funding be available. As there is about \$500,000 available for two loans, CSFA asked AAS to prioritize its loan applications. Ms. Johantgen requested that the Board approve the two loans before them. These two were top choices by AAS. This will complete work for 13-14. Kristen Schunk has started invoicing June schools. Ms. Johantgen suspected that some schools will be using loan proceeds to pay back debt to CSFA. Two current schools have a charter number and a CDS code; they have a facility and are operating. Staff recommends that schools be awarded a loan through the revolving loan fund program.

The Board members called for public comments. Ms. Johantgen offered recognition to David Weinberg for working to get the appeals brought before the Board this month.

The Board voted and seconded. No public comment was received. The board approved the item unanimously.

Return to Item 4

Mark Paxson requested the Board return to the issue of KIPP Adelante's appeal. Specifically, he is troubled that the school's excuse for not sending 13-14 application is the exact same as 14-15, and is essentially "We don't know how it happened." This explanation makes sense for one year, but not for two years. Mr. Paxson suggested having staff contact the charter school and obtain more detailed explanations which can be considered at the next board meeting. Steve Theuring said the school claimed the main reason for failing to submit the application in a timely manner was employee turnover at KIPP San Diego.

The Board asked if we have been granting 13-14 appeals, and confirmed that only 14-15 appeals had been granted at today's meeting. The Board accepted that policy was created to accept 14-15 appeals, but that no such policy has been created with respect to 13-14 appeals. The Board took notice of weak excuses for 14-15 and questioned opening up appeals for all of 13-14. Mr. Paxson's suggestion is to vote no.

Ms. Johantgen noted a problem for next year: lowering the FRPM eligibility threshold to 60% for some schools will present higher demand for funds. If we hold funds and vote on new appeals, we will not know until end of program if we have money available for those appeals because of new 60% rule.

The Board will become reticent in following years of appeals with weak claims, and wants to make it clear that it will be difficult to get an appeal. It was discussed what a cutoff should be for the 13-14 appeals, and that it cannot go on forever. Board wants to make clear that this will not happen next year.

The Board compared late appeals to the situation in Department of Finance where groups will purchase things then request funding for it. Essentially, requesting someone to fund something after the money has been spent is unacceptable. The program is here to help

schools but after a year has gone by, it questions the urgency of the appeal process, even if money has been spent.

Ms. Johantgen suggested that a deadline table being posted on the CSFA website. The Board was disinclined to accept appeals from 13-14, and was unsure of the appeal before them today, as it related to KIPP Adelante. Any appeals will need to come to the Board. Mr. Paxson advised that the agenda does not specify which appeal is being presented for what years, but is vague enough to satisfy public notice. The Board discussed whether the appeal should be denied or whether the Board should simply take no action on the appeal. Mr. Paxson wanted to make clear that first action was for 14-15, and that this is specifically for 13-14 and that staff is recommending denial of appeal. According to Mr. Paxson, the Board could simply take no action. Ms. Johantgen suggested bringing back the 13-14 appeal when staff's recommendation could be presented with greater detail from the school operator. Other appeals will be brought to the Board at a later time but they will be of the FRPM variety. Board deferred to staff if they approved of bringing back the appeal next month.

Mr. Paxson clarified that 14-15 appeals had previously been accepted. Current discussion is only for KIPP Adelante 13-14 appeal. Standard procedure is to recommend denial of late applications but Ms. Johantgen is requesting it be brought back at a later meeting once more research is carried out to find mitigating circumstances. The Board said it is reluctant to open up 13-14 appeals but deferred to Ms. Johantgen's suggestion to wait until a later board meeting to allow staff time to check its files.

Nicolaus Seppi was introduced to the Board as the new OT for CSFA and welcomed.

The only additional comment was that there is difficulty scheduling the November board meeting.

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

Respectfully submitted,

Katrina Johantgen,
Executive Director