

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, November 20, 2014
10:00 a.m.

915 Capitol Mall, Room 587
Sacramento, California 95814

Deputy State Treasurer Bettina Redway, serving as Chair, called the meeting to order.

Roll Call

Members Present: Bettina Redway, designee for Bill Lockyer, State Treasurer
Eraina Ortega, designee for Michael Cohen, Director of Finance
Jeannie Oropeza, 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
David Weinberg, Program Analyst (via phone line)
Nicolaus Seppi, Office Technician

The Chair declared a quorum present.

Approval of Minutes

The minutes for the October 15, 2014 Authority board meeting were approved as presented with one abstention.

Executive Director's Report

Charter School Facility Grant Program:

Ms. Johantgen informed the Board that staff of the California School Finance Authority (CSFA) continues to work on 13-14 true up work under the SB 740 program. CSFA has also made headway on 14-15 advance apportionments, where CSFA calculates the annual entitlement owed to each school and disburses 50% of the amount to the school. To date, CSFA has disbursed the following amounts through the SB 740 program; \$7 million for 14-15, \$63 million for 13-14, \$35 million for 12-13, and \$4.2 million is anticipated to be released for 11-12. CSFA is also finishing work on old CDE applications.

Charter School Revolving Loan Fund Program:

Ms. Johantgen informed the Board that CSFA has just received the last two loan agreements from two AAS schools. These were among the late applications that CSFA stated it would review for funding if there was money left in the program after on-time applications were received. CSFA found that these two AAS schools could support the payments through the program. CSFA sent the disbursements to the STO accounting department for their \$250,000 loans last week, and the schools should receive their funds in the next three or four weeks. CSFA is also looking at how to draw down from the security fund, which currently has a balance of \$4.4 million, to increase the amount available to make new loans. This money comes from interest paid on the loans which goes directly into the security fund.

Ms. Johantgen also informed the Board of a statutory requirement that CSFA must try to capture delinquent loans. The Board asked if CSFA is tracking the loans that are not repaid when schools close. Ms. Johantgen responded that CSFA is tracking the amounts of delinquent loans, and that staff can retrieve the exact numbers for the schools are not making payments.

Conduit Bond Program:

Ms. Johantgen told the Board that CSFA does not have a bond financing on the agenda for the day. However, there will likely be one in December and three or four in January and February. CSFA has been tracking conduit bond activity at the other conduit issuing authorities over the last three months, and from these observations, CSFA has seen some bonds go to CMFA and CSCDA. CSFA is looking at modifying its fee schedule to stay competitive with other conduit issuers. CSFA will bring a revised fee structure to the Board in December or January.

Charter School Facilities Program:

Ms. Johantgen informed the Board that there are four recommendations for preliminary apportionments being brought before them today. Ms. Johantgen also told the Board that CSFA wanted to bring the Magnolia Science Academy Santa Ana project to the Board today, but instead will discuss its financial soundness report at the December meeting, if information needed for the review is received in a timely manner.

State Charter School Facilities Incentive Grants Program:

Ms. Johantgen told the Board that CSFA will bring a regulation change to them in December for this program. CSFA currently relies on student performance data to assign preference points, but because of the transition to Common Core and how achievement is subsequently tracked, there will be gap in the data needed to assign preference points and make awards through this program.

CSFA continues to finalizing their supplant-supplement analysis. As the Board may know, if a school is awarded both State and federal funding, State money must be awarded first and federal moneys second. The federal government has since notified CSFA that they can repurpose that funding into a subsequent round, which amounts to approximately \$2 million. Therefore, neither the program nor the State will lose the federal funding.

Charter School Facilities Credit Enhancement Grant Program:

Ms. Johantgen informed the Board that there is still approximately 40,000 available. CSFA has received one application for the balance and will utilize it with a bond financing early next year.

Item 4: Resolution 14-27 Determination of Financial Soundness

Ms. Johantgen reminded the Board that CSFA must find schools financially sound based on their ability to repay a 30 year loan for 50 percent of their project costs. CSFA must then notify the Office of Public School Construction and State Allocation Board of their financial soundness determinations before awards are disbursed. The State Allocation Board has a meeting next week, so the four schools discussed today will be brought to the SAB for awards totaling about \$90 million. Although one school accepted a partial award, all schools were found to be financially sound.

Ms. Johantgen highlighted for the Board that Da Vinci has local GO Bond proceeds to satisfy the required match. Wiseburn School District had a GO ballot measure; approved bond proceeds are set aside to be coupled with a State grant to build a facility. Da Vinci has been in operation since 2009, is in good standing with their authorizer, and has a charter agreement until June 2018. Da Vinci is anticipating enrollment growth, and, given their waitlist of over 600 students, such growth is reasonable. CSFA did not look at their debt service, but they did look Da Vinci's financials to ensure they are a sustainable financial operation, which they are. Da Vinci operates four schools; Communication High School, Science High School, Design High School, and a K-8 school called Innovations which is a home-school, offsite hybrid model; these students feed into the high schools. There was a testing anomaly where the school did not have enough students taking a test. Due to this, the data was not registered with CDE, so the 10-11 year has no student performance recorded. They met 14 out of 15 AYP criteria in 12-13, however. Staff recommends that the Board find Da Vinci sound for preliminary and advance apportionment.

Ms. Johantgen told the Board that this program allows schools to draw down money in advance of the final apportionment for site acquisition and design cost. There is a recommendation in place if schools that want to turn around after the reservation of their funds, and draw funds in advance for project costs. The program requires that schools enter into an MOU and funding agreement, which must be executed before funds are released.

One Board member expressed concern that the requested funding of \$106 million is far too high for a 1,300-student school. Ms. Johantgen suggested the requested amount might be justified based on the curriculum, or the fact the project is for a multi-level facility in a densely populated, urban area. The Board member acknowledged it saw CTE components but that for most high schools, the highest request is around \$75 million with more students. Ms. Johantgen invited Jason Casillas from OPSC up to describe the process used to generate project costs using their grant calculator. Mr. Casillas informed the Board that the project was a large one. Currently, there are 1,296 pupils, and that the school is located in an expensive area of Los Angeles. The facility is located on a 13.4 acre urban site, and that CDE recommended a site of 36 acres, which allowed the school to get a large urban grant.

El Sol Science and Arts Academy of Santa Ana is seeking a \$25 million project, and will be responsible for \$12.8 million. This school was fourth in line for an award, so they were offered a partial award of \$7 million, but are financially sound for the full \$12.8 million at 3 percent; they met coverage with a comfortable margin. Once the rate is locked in, statute requires CSFA to look at the State's most recent G.O. Bond sale or pooled money investment account rate. These are so low that interest cannot be less than 2 percent, so there is a 30 percent cushion at 3 percent. This school has been open since 2001, and has done a very good job based on student achievement. Coverage is 1.35 times and 1.33 times one year after project occupancy. Staff recommends that the Board find El Sol Science and Arts Academy of Santa Ana financially sound for preliminary/advance apportionment.

Ms. Johantgen then addressed item 4C, Lazear Charter. This school is operated by an EMO called Education for Change Public School, who CSFA is looking at for a recommendation of financial soundness. The operators have taken over three local elementary schools and turned them into charter schools. CSFA is relying on EMO data due to the lack of student information caused by this transition. CSFA found that the EMO could handle debt services with over three to four times coverage. Staff recommends that the Board find Lazear Charter Academy and its EMO financially sound for advance apportionment.

Ms. Johantgen then discussed Natomas, a local charter school in the Sacramento area. Natomas is looking at \$7.5 million in project cost, of which the school would be responsible for \$3.6 million. The school met program eligibility; they have been active for over six years and have shown consistent enrollment growth. They have strong retention rates year to year of 96 and 98 percent respectively in 13-14 and 14-15 and a waiting list of over 720 students. They have coverage of over 2.2, 3.2, 2.4, or 2.5 times coverage in the first three years of project occupancy. They met all AYP criteria during the last three to four fiscal school years. They have very strong student performance with almost 900 students. The school has no legal issues and is in good standing with their authorizer. CSFA staff recommends that the Board find Natomas financially sound for preliminary apportionment.

The Board noticed that the appendix in the exhibit was labeled as preliminary but the resolution says preliminary/advance. A motion was made to approve the Resolution with the corrections to the exhibit made to read preliminary / advance. It was voted and approved unanimously.

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

Respectfully submitted,

Katrina Johantgen
Executive Director