

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Friday, October 23, 2015
1:00 p.m.

915 Capitol Mall, Room 587
Sacramento, California 95814

Deputy State Treasurer Vincent P. Brown, serving as Chair, called the meeting to order.

Roll Call

Members Present: Vincent P. Brown, designee for John Chiang, State Treasurer
Eraina Ortega, designee for Michael Cohen, Director of Finance
Nick Schweizer, designee for Tom Torlakson, Superintendent of Public Instruction

Staff Present: Katrina Johantgen, Executive Director
Laura Martinez, Manager
Steve Theuring, Program Analyst
Ian Davis, Program Analyst
Jodie Jones, Program Analyst
Anne Osborne, Program Analyst
Henry Hernandez, Program Analyst
Nicolaus Seppi, Office Technician

The Chair declared a quorum present and welcomed those on the phone lines to the Board meeting.

Approval of Minutes: The minutes from the September 9, 2015 Authority Board meeting were presented to the Board for approval. The Chair noted an error in the minutes, and requested that Moira Brown be changed to Moira Topp. With this change, the Board approved the minutes unanimously by roll call.

Executive Director's Report

Charter School Facility Grant Program: Ms. Johantgen told the Board that the Authority has received 396 applications for the 2015-16 funding round as of October 22, 2015. The Authority has disbursed \$67 million for the 2014-15 funding round, and anticipates disbursing up to \$85 million in total for the 2014-15 round.

Charter School Revolving Loan Fund Program: Ms. Johantgen told the Board that the Authority is bringing three loan recommendations to the Board today, which will close out the 2014-15 funding round.

Conduit Bond Program: Ms. Johantgen told the Board that the Authority has closed 41 deals to date. One deal will close next Tuesday, and three others between now and the end of December.

Charter School Facilities Program: Ms. Johantgen told the Board that they will be voting on two financial soundness reviews at today's meeting.

State Charter School Facilities Incentive Grants Program: Ms. Johantgen told the Board that the Authority is bringing regulation changes for their approval. The Authority continues processing disbursements and will submit the annual report at the end of October.

Charter School Facilities Credit Enhancement Grant Program: Ms. Johantgen told the Board that the federal report is due in December and that the Authority is monitoring interest and the status of the accounts.

Item 4: Resolution No. 15-28 – Approval of Interagency Agreement CSFA 01-15: Ms. Johantgen explained that this contract (interagency agreement), which will provide services between the Authority and the STO, exceeds the \$250,000 the Board allows the director to sign. The Chair clarified this was part of a BCP package to provide resources to IT to support all authorities within the STO.

Ms. Ortega made a motion and Mr. Schweizer seconded; after the Chair asked for public comment, the motion passed unanimously by rollcall.

Item 5: Presentation of New Market Tax Credits: Ms. Johantgen introduced members of the High Tech High (HTH) financing team, Kay McElrath, CFO of HTH, and Eugene Clark-Herrera of Orrick, Herrington & Sutcliffe (Orrick), to deliver an informational presentation regarding New Market Tax-Credit (NMTC) loans, and to answer any questions the Board members had. When the presentation concluded, the Board members thanked the team and continued with the meeting.

Item 6: Resolution No. 15-97 – Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$14,000,000 to Finance and Refinance Educational Facilities Located in San Diego County, California for HTH Learning

Ms. Johantgen informed the Board that this deal will close next Tuesday, if approved. The financing is an unrated private placement with a par-amount of \$11,650,000. The bonds are refinancing an outstanding New Market Tax Credit loan, as well as pay for certain project costs. Kay McElrath added that City National Bank is providing fully amortized funding at 3.86% for 15 years.

Ms. Ortega made a motion, and Mr. Schweizer seconded; after the Chair asked for public comment, the motion passed unanimously by rollcall.

Item 7: Resolution No. 15-30 – Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$25,000,000 to Finance and Refinance Educational Facilities Located in San Joaquin County, California for College for Certain, Inc.

Ms. Johantgen told the Board that this obligated group bond deal is expected to be rated on November 14th, and the staff summary reflects both a BB+ and BBB- rating. The charters for

the individual schools will be renewed on November 7th or November 14th by their authorizers. Mark Paxson noted that the staff summary was incorrect regarding the rating and amounts, but that the resolution was correct.

Ms. Ortega made a motion to approve based on the language in the resolution and Mr. Schweizer seconded; after the Chair asked for public comment, the motion passed unanimously by rollcall.

Item 8: Resolution No. 15-31 – Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$25,000,000 to Finance and Refinance Educational Facilities Located in Santa Clara County, California for 149 N. White Road, LLC

Ms. Johantgen told the Board that this is an unrated deal set to price on November 10th and close on December 3rd. Bill Wildman from Piper Jaffray, Patricia Reguerin, CEO of Escuela Popular del Pueblo (EPP) and representatives from Orrick came before the Board.

Mr. Schweizer immediately asked how the bonds would be marketed and how payments would be made. The financing team told him that rent will be intercepted under State's intercept mechanism to pay back the loan. The lease payments have the senior lien on lessee, and the trustee makes bond payments. The bond itself will pay for improvements and a new structure on land owned by Alum Rock School District, but leased by EPP for thirty years. EPP currently leases two off site locations with the land lease, but will move students to the new single location once it is built. In preparation for the new facility, EPP has adjusted its budget to make payments, and expects increased revenues with higher enrollment and a consolidation of staff due to there being one campus.

The main target of EPP recruitment efforts has been targeting immigrant families, specifically; recent arrivals, unaccompanied minors, and immigrant families that want to keep their cultural identity. They also work with parents and adults to help them obtain high school diplomas and learn English, which has a waiting list.

Regarding marketing for the bond, Piper Jaffray has done \$2 billion worth of financing in the last ten years, and has worked with most charters in the country. From their experience, the lack of a rating does not reflect the financial situation of the school. Standard and Poor's ratings are based on academic performance, which is hard to determine in California with different educational standards. The type of population also affects the rating, as the goal is to educate people not proficient in English.

Ms. Ortega made a motion and Mr. Schweizer seconded; after the Chair asked for public comment, the motion passed unanimously by rollcall.

Item 9: Resolution No. 15-32 – Approval of the Revolving Loan Fund Program Recommendations

Ms. Johantgen explained the loans that would be the final three revolving loan approvals for this year's funding round. The Board asked Ms. Johantgen what happens when a school withdraws, and why some schools have different loan terms. She explained that some priority one schools did not accept the loan agreement, which allows priority twos to come in for funding. The regulations permit a school to choose a length of time up to five years; it does not specify a minimum length.

Ms. Ortega made a motion, and Mr. Schweizer seconded; after the Chair asked for public comment, the motion passed unanimously by rollcall.

Item 10: Resolution No. 15-33 – Adoption of Proposed Permanent Regulations for the Charter School Facility Grant Program and Authorizing the Permanent Rulemaking Process

Ms. Johantgen called Anne Osborne and Ian Davis to discuss the regulation changes with the Board and answer any questions. The specific changes they discussed included:

- Schools are required to be in good standing with their charter authorizer.
 - Mr. Schweizer asked how the Authority determined good standing. Staff explained that it is left to the authorizer to determine what they consider good standing. The Authority is working with districts to find an easier process for garnering this certification from districts.
- Ground leases are now acceptable with clarification regarding district facilities. Statute currently prevents schools in district facilities from getting awards, but some are on district land in their own facilities.
- A section was added regarding the addition of online application submission.
- Schools can now be found ineligible based on incorrect or misleading information in their applications and will need to return any disbursed funds.
- Added clarification on how funds are disbursed if the Program is oversubscribed.
- Amended the application to reflect new eligibility requirements.

After Ms. Ortega alerted staff to a typo in the section regarding allowing new schools to participate, the Chair asked if there were any public comments from the phone lines or the audience. Ms. Johantgen added that the Authority discussed the regulations with stakeholders.

Ms. Ortega made a motion, and Mr. Schweizer seconded; as the Chair had already asked for public comment, the motion passed unanimously by rollcall.

Item 11: Resolution No. 15-34 – Adoption of Proposed Permanent Regulations for the State Charter School Facilities Incentive Grants Program (CFDA 84.282D) and Authorizing the Permanent Rulemaking Process

Ms. Osborne detailed the changes to the regulations and the application for the Board, and highlighted to changes: 1) finalizing awards by the end of June; and 2) moving the due date of the applications to March. The Authority is also working with the STO's IT division to have an online application submission in place for the 2016 round .

Ms. Ortega made a motion, and Mr. Schweizer seconded; after the Chair asked for public comment, the motion passed unanimously by rollcall.

Item 12: Resolution No. 15-35 – Approval of Financial Soundness Determination for the Charter School Facilities Program for Final Apportionment

Ms. Johantgen explained that Monsenor Oscar Romero Charter Middle and Roseland Charter School (Roseland University Prep project) will be receiving their final apportionment

of Charter School Facilities Program (CSFP) fund assuming the board concurs with staff's recommendation, and that all paperwork is complete before the deadline.

Mr. Schweizer made a motion to approve Resolutions A and B and Ms. Ortega seconded; after the Chair asked for public comment, the motion passed unanimously by rollcall.

Item 13: Additional Comments

Ms. Johantgen told the Board the December meeting might be moved to earlier in the month due to the OPSC deadline, so schools will be able to access Charter School Facilities Program funding.

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

Respectfully submitted,

Katrina Johantgen
Executive Director