M E M O R A N D U M **Staff Summary No. 6**

Date: August 10, 2016

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution 16-20: Approving Debt Issuance Guidelines / Sales Restrictions

---

Since 2010, the California School Finance Authority (Authority) has issued nearly $750 million in tax-exempt and taxable bond and note financings for California charter schools of varying credit quality. In 2012, the Authority adopted bond issuance guidelines / sales restrictions that were modeled after the issuance guidelines of other authorities within and outside of the State Treasurer's Office, and are intended to guide the sale and placement of non-rated and lower-rated debt to sophisticated investors who understand the risk involved in lower rated debt. The guidelines are in turn used by charter school borrowers and their financing team members when deciding to issue debt through the Authority or another conduit issuer serving charter school borrowers, such as the California Statewide Community Development Authority or the California Municipal Finance Authority (issuers that may have less stringent sales restrictions).

As underwriting and investing trends continue to evolve, and a broader base of investors understand charter school financing structures and credit quality, the Authority has been asked to make exceptions to the existing restrictions adopted by the board in 2012 to allow for the purchase of non-rated and below investment grade rated bonds by investment advisors on behalf of their clients.

Based on the aforementioned, Authority staff bring forth the attached guidelines / restrictions for board approval. Modifications to the restrictions primarily include a section related to "Debt Purchased on Behalf of Initial Investors by a Bondholder Representative" which allows for representatives to purchase CSFA-issued debt on behalf of their clients that meet the sales restrictions. This modification allows representatives to sign our required Investor Letter without the need to get each investor's signature.

We maintain that the proposed guidelines balance the Authority's interests in the borrowers need for greater issuance flexibility with the importance of ensuring that the rating of the debt sold reconciles with the sophistication of the investor.

Staff recommends that the Board adopt Resolution 16-20 approving the Debt Issuance Guidelines.