

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, October 12, 2016
11:00 a.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
Ian Davis, Program Analyst
Kristen Schunk, Program Analyst
Jodie Jones, Program Analyst
Anne Osborne, Program Analyst
Nicolaus Seppi, Office Technician

Katrina Johantgen welcomed those on the phone line to the Board meeting, after which Chairperson Brown declared a quorum present after rollcall.

Item 2: Approval of Minutes: The minutes from the September 14, 2016 Authority Board meeting were presented to the Board and approved unanimously by roll call.

Item 3: Executive Director's Report

Ms. Johantgen updated the Board with details regarding the current status of several of the Authority's programs:

- Charter School Facility Grant Program (SB740): The Authority is processing invoice costs and 2016-17 Applications, and preparing for the October deadline for new, newly eligible and previously late schools. The Authority is also reviewing data for a potential change in the ADA limit.
- Charter School Revolving Loan Fund: The Authority has posted reports online detailing the defaulted loans inherited from the California Department of Education (CDE), and is working with the State Controller's Office to have the defaulted loans discharged.
- Charter School Facility Program (CSFP): The Authority sent out addendums to funding agreements with schools to allow the use of State intercepts for payments. Additionally, if approved by voters, Proposition 51 will bring \$500 million into this program.

- Charter School Facilities Incentives Grant: The Authority has completed Round 12, however twelve construction and invoice schools will require increased compliance monitoring and reporting under Davis-Bacon, so the Authority will look at streamlining the reporting process.
- Credit Enhancement: Anticipating a new application in the fall with new funding. Will look at smaller scale financings where money is quickly returned to the Authority.

Mr. Schweizer voiced concerns over the marginal quality of the conduit bond projects coming before the Board, emphasizing the number of non-rated projects. He believed it would be a benefit to the Authority to have a discussion on its role in the marketplace, its goals, if it should tend to the quality of the credits it is placing in the market, and how that will affect its role in the marketplace, as well as the impact on the State and its liability.

Ms. Johantgen explained that the Authority has updated sales restrictions to alleviate some of these issues, but remains the issuer of choice due to the State intercept mechanism. Mr. Schweizer agrees that the intercept method is a primary motivator, but that it might not be the best option for all deals. Chairperson Brown agreed, discussing the differing statutory requirements, and the increased risk as being a conduit for the Authority and the State. The Board requested that by early next year the Authority begin a process to address these concerns and Ms. Johantgen suggested the January or February Board meetings.

With no additional questions or comments, the meeting continued.

Item 4: Resolution No. 16-29 – Resolution Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$60,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Los Angeles County, California for Alliance for College-Ready Public Schools Facilities Corporation

Ms. Johantgen introduced the item and the members of the financing team to the Board: Mike Krutz and Zainab Ali from Alliance for College-Ready Schools, Eugene Clark-Herrera from Orrick, Herrington & Sutcliffe, and Bill Wildman from Piper Jaffray.

Mr. Wildman wished to address Mr. Schweizer's earlier comments. He explained that charter schools are not usually rated in the A category without financial assistance, so a deal of this rating is as good as a charter financing can usually be, additionally explaining the rating procedures for Standard's & Poor's (S&P). Regarding this financing, he expects an investment grade of BBB- or BBB in a few weeks, to be on the market in the first part of November.

Mr. Krutz and Ms. Ali detailed the history of Alliance before explaining that this is to refinance five schools, including two new constructions. The Board went through the specific schools in the financing, as well as the details of the financing itself. Mr. Clack-Herrera confirmed there will be a total of twelve schools in the obligated group if this financing is approved.

Ms. Ortega made a motion to approve and Mr. Schweizer seconded. After a call for public comment, the item was approved unanimously by rollcall.

Item 5: Resolution No. 16-30 – Resolution Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$27,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Kern County, California for use by Grimmway Schools

Ms. Johantgen introduced Paul Escala from Grimmway Schools to the Board, who explained the history of Grimmway schools and the charitable involvement of Grimmway Enterprises and Grimmway Farms in the region. He said this financing will allow the refinancing of existing debt from one school and allow the construction of a second school facility. Mr. Wildman added that the rating will likely be BB+ or BBB- from a meeting last week.

Mr. Clark-Herrera explained how the main companies, including RLG Land Foundation, Grimmway Schools, and the schools relate to each other, drawing parallels to, and explaining the structure was based on the Alliance financing. They further explained that Grimmway Schools and RLG are 501(c)(3)s. After some additional discussion, Mr. Schweizer asked what the benefit was in such structures, with separate entities holding the bonds, owning the land, and running the schools. Mr. Clark-Herrera and Mr. Wildman emphasized the flexibility given to Grimmway to control the structure of the financing, the included entities, and the ability to modify the structure without affecting the overall credit, as well as allow the schools to be eligible for the SB740 program, which requires a lease payment to a separate entity.

Chairperson Brown requested that a chart showing the breakdown of the financing structure would be appreciated in the future.

Ms. Ortega made a motion to approve and Mr. Schweizer seconded. After a call for public comment, the resolution was approved unanimously by rollcall.

Item 6: Resolution No. 16-31 – Resolution Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$12,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Fresno County, California for use by Kepler Education, Inc.

Chairperson Brown confirmed that this item was removed from this meeting.

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

Respectfully submitted,

Katrina Johantgen