

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, November 9, 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
Dana Brazelton, Manager
Laura Martinez, Specialist
Ian Davis, Program Analyst
Kristen Schunk, Program Analyst
Anne Osborne, Program Analyst

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

Item 2: Approval of Minutes: The minutes from the October 12, 2016 Authority Board meeting were presented to the Board and approved unanimously by roll call.

Item 3: Executive Director's Report

Ms. Johantgen told the Board that there were no updates regarding the Authority's programs but added since Proposition 51 passed, the Authority is looking at an addition of \$500 million to the Charter School Facility Program (CSFP). Ms. Johantgen noted that there were no proposed changes to the CSFP and that the Authority will work with stakeholders, legal counsel, and Office of Public School Construction to implement the new funding round.

Ms. Johantgen also advised the Board about the potential bankruptcy of one of the Authority's bond issuances from 2012 through the borrower, Tri Valley Learning Corporation.

With no additional questions or comments, the meeting continued.

Item 4: Resolution No. 16-32 – Approval of Interagency Agreement (CSFA 01-15) between the California School Finance Authority and the State Treasurer’s Office in an amount not to exceed \$278,000, to Provide Services Related to the Authority’s Programmatic and Administrative Functions

Ms. Johantgen explained that this contract is similar to one that came before the Board last year and exceeds the Director’s \$250,000 cap by \$27,000. The Authority will look at expanding the contract amount next year as it appears the increased amount will be more in line with the amount needed in future contracts.

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

Item 5: Resolution No. 16-33 – Resolution Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$13,500,000 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 Bright Star Education Group and Bright Star Schools

Ms. Johantgen called the financing team: Guillermo Garcia and John Kim from Stifel, Nicolaus & Company, Inc., Tyler Baier, Chief Business Officer from Bright Star Schools, and Eugene Clark-Herrera from Orrick, Herrington & Sutcliffe. Ms. Johantgen told the Board that the bond would be tax-exempt and the proceeds will fund new construction for Valor High School.

Mr. Baier briefed the Board on the history of Bright Star Schools, the current status, and educational successes. The financing team explained that there is low risk of a drop in enrollment due to the high demand for elementary and middle feeder schools in the area and they expect this school to have full enrollment next year. The total cost of the project is expected to be \$12.4 million, with Bright Star putting in \$1 million of equity plus a \$1.5 million grant from the Great Public Schools Initiative. Construction is expected to be completed in January 2018 and the school has arranged for a Proposition 39 site the remainder of the year, if construction is delayed.

The Board asked why the financing is not seeking a rating and what the value of such a rating was. Mr. Kim explained that Standard and Poor’s (S&P) requires the ability to demonstrate enrollment growth and a history of liquidity for a rating. If rated, it also might not meet investment grade, but Mr. Kim believes that once facilities are open, they could qualify for investment grade. He further explained that sometimes, unrated deals can get better financings and can be easier to attract investors.

The Board asked about the structure of the financing and Mr. Clark-Herrera explained that the borrower is a single, separate entity that operates all the schools and is established solely to assist the charter schools. He additionally explained the relationships between the various charters, the LLCs, the non-profits and the CMO itself. He added that the financing is structured to give Bright Star flexibility to add additional schools to the obligated group in the future. He compared it to the Rocketship financing, where a single non-profit operates many schools.

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. 16-34 – 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 Kepler Education, Inc.

Ms. Johantgen informed the Board that this item is being held to a future meeting.

Item 7: Resolution No. 16-35 – Resolution Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$29,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in San Mateo and Santa Clara County, California for Rocketship Education

Ms. Johantgen told the Board that this is an unrated financing for \$29 million for three Rocketship schools; \$20 million is refinancing and \$9 million is for a new financing. She then introduced the financing team to the Board: Mr. Garcia, Mr. Kim, and Mr. Clark-Herrera are remaining from the previous financing and Laura Kozel, Vice President of Treasury and Facilities at Rocketship Education.

Ms. Kozel provided the Board with a history of the schools involved in the financing and their current conditions. Mr. Garcia discussed the status of the schools, the CMO and their relationships to the obligated group, as well as expected enrollment and the current financial situation with the schools.

The Board asked several questions about the lack of a rating. The financing team explained that Rocketship is focused on growth, which precludes them from obtaining an investment rating. Additionally, a discussion regarding selling tax-exempt bonds led to an explanation of repayment, restructuring, and grant possibilities.

The Board and legal counsel then asked the financing team to explain the relationship between the LLCs, the schools and the parent company and to specifically address the relationship between the Nashville school and its LLC to the rest of the obligated group. The Board and legal counsel also asked if out-of-state schools would be using California funds for their debt service.

The financing team explained the various relationships among both the in-state and out-of-state schools and LLCs. They confirmed that the Nashville school has its own financing under a Tennessee-based conduit issuer, and that this obligated group relationship is legal under the laws of the involved states. They added that once funding is transferred to the LLC from the school as a rent payment, it ceases to be state funding and becomes corporate income of Launchpad LLC. This accounting method allows the company to pool resources and use the pooled resources to make lease payments, as needed, to support weaker schools. When questioned, the financing team confirmed that pooling resources could mean a California school's rent could be set higher by the LLC to support an out-of-state school with a lower rent, but that rents are initially set based on project costs.

After some additional discussion on the subject, Ms. Ortega made a motion to approve and Mr. Schweizer seconded. After a call for public comment, the resolution was approved unanimously by roll call. Before dismissing the financing team, the Board advised them to proceed with caution regarding the flow of funds across state lines, especially in regards to their authorizers.

Item 8: Resolution No. 16-36 – Approval of a Financial Soundness Determination for the Charter School Facilities Program for Final Apportionment for El Sol Santa Ana Science and Arts Academy located in Orange County

Ms. Johantgen introduced the item, explaining it was a final apportionment of \$30 million for El Sol Santa Ana and discussed its long operating history, good coverage and strong academic performance. She also explained that it was co-located with a district facility, so legal counsel worked to remove issues in the ground lease to protect State assets.

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

Item 9: Resolution No. 16-37 – Approval of a Financial Soundness Determination of the Inner City Education Foundation on behalf of Lou Danzler Preparatory Charter Elementary located in Los Angeles County, under the Charter School Facilities Program for Final Apportionment

Ms. Johantgen introduced the item and explained it was a final apportionment of \$21 million to complete an award initially granted in 2008. Ms. Johantgen and Mr. Parker, a representative of the school, provided some additional commentary about the school and the finances.

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

Before ending the meeting, Ms. Johantgen introduced the new Sacramento Manager to the Board, Dana Brazelton.

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

Respectfully submitted,

Katrina Johantgen