

# CALIFORNIA SCHOOL FINANCE AUTHORITY

## Meeting of the Board

Wednesday, February 8, 2017  
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  
Jose Franco Gonzales, Program Analyst  
Kristen Schunk, Program Analyst  
Ryan Storey, 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 roll call.

Item 2: Approval of Minutes: The minutes from the November 9, 2016 Authority Board meeting were presented to the Board and approved unanimously by roll call.

### Item 3: Executive Director's Report

Charter School Facility Grant Program: Ms. Johantgen told the Board that the Authority is closing out the 2015-16 funding round after disbursing \$90 million to schools. Initial reviews for the 2016-17 funding round are 99% completed with \$42 million being disbursed.

Charter School Revolving Loan Fund Program: Ms. Johantgen told the Board that the application period is open through February 24<sup>th</sup>, and Authority staff will host a webinar February 9, 2017 to assist schools through this process. The Authority has also completed its work to write-off truant loans with the State Controller's Office.

Conduit Bond Program: Ms. Johantgen said that the Authority has issued almost \$900 million in bonds and notes. The Authority has also presented several pricing formats and

qualitative narratives to the Board which Chairperson Brown suggested offering on an annual basis.

*Charter School Facilities Program:* The Authority is busy preparing to launch the Proposition 51 funding round. The Authority is working with its IT department for an online application due to the volume of documents that must be submitted. The Authority will host a webinar to assist with the application process when it is ready.

*State Charter School Facilities Incentive Grant Program:* The Authority is close to launching Funding Round 13, and has provided current statistics on the status of supplant/supplement.

*Charter School Facilities Credit Enhancement Grant Program:* The Authority is monitoring and enforcing compliance with the program.

With no additional questions or comments, the meeting continued.

*Item 4: Presentation of the Authority Charter School Bond Report*

Ms. Johantgen introduced the item for the Board, explaining it was the Authority's response to the questions raised at the October meeting. Ms. Johantgen told the Board the report covers the Authority's place in the market, safeguards that are in place to protect the State, and how the Authority tends to the quality of the credits. Ms. Johantgen wanted to thank CDIAC for the use of information from their database, as well as reports used from Standards & Poors (S&P), and provided the Board with some statistics of the Bond program. She explained that Charter schools have difficulty obtaining permanent facilities, and that as 501c3 non-profits, they require a conduit issuer to access financing markets. The Authority, because of the Tax Equity and Fiscal Responsibility Act (TEFRA) and State-level intercept, is the issuer of choice in California.

The Board asked a number of questions regarding their concerns, specifically: how the Authority's guidelines compared to other issuers and what protections exist; concerns over the number of non-rated deals, and; that the Authority should tend to the quality of its financings, as it possesses a large share of the market.

Ms. Johantgen and Mark Paxson, legal counsel, answered some of the Board's questions. The Authority started with guidelines from other issuers as a template, but that a key difference is the intercept payment method. Mr. Paxson confirmed other Authorities see non-rated deals, as their lenders do their own vetting, but that lower and non-rated deals also have more restrictions. They also explained that the Bond agreement documents place responsibility on the borrower, and provide legal protections for the issuer.

Bill Wildman, Director at Piper Jaffray, and Guillermo Garcia, Director at Stifel, helped with questions and discussed non-rated deals. Often, non-rated deals are required to undergo additional vetting and inspections, where rated deals do not. Additionally, as the Moody's rating agency is entering the Charter market, competition between the rating agencies will lead to more rated deals. Additionally, low market rates allowed organizations to get financings that they may not have been able to under previous market conditions.

The Board continued to have some concerns, especially around the issue of non-rated deals, and called on the Authority to reflect on its role in the Market. After asking if there were any additional comments, the meeting continued.

*Item 5: Resolution No. 17-01 – 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.*

Ms. Johantgen introduced the item to the Board and introduced the financing team: Dr. Christine Montanez, Head of School from Kepler Neighborhood School; Matt O'Meara, Managing Director, and Maggie Caschette, Assistant Vice President, from BB&T Capital Markets, and; Marc Bauer, Senior Associate of Orrick, Herrington & Sutcliffe LLP.

Dr. Montanez started with discussing the history of the school and their current status before Mr. O'Meara described the deal itself. He explained this is a non-rated financing that will last between thirty to thirty-five years with a structure similar to other charter financings. He then described the history of the bank itself and its history with charter financings nationwide.

Mr. Bauer confirmed that the structure is similar to previous financings; the borrower is a limited liability company, separate from the charter school, which pays lease payments from its intercept to pay off the debt. He also confirmed for the Board that this will be set up as an Obligated Group structure, so that additional schools could be added in the future.

Ms. Johantgen confirmed that staff recommends the Board approve the item. 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. 17-02 – 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 use by Alta Public Schools*

Ms. Johantgen introduced the item and the financing team to the Board. Ervin Reed, Director of Finance at Alta Public Schools, Christine Rankin, Senior Associate at Orrick, Herrington & Sutcliffe LLP, and Guillermo Garcia, Director at Stifel, Nicolaus & Company, Incorporated.

Mr. Reed introduced himself to the Board, and detailed his history with Alta Public Schools and described the history of the school and its academic achievements before Mr. Garcia continued discussing the financing. The financing team explained this financing would be for Alta's middle school, as the Authority had previously provided funding for another of their schools. He added that this financing will be organized as an obligated group, to allow additional schools to be added in the future.

When asked by the Board, the financing team confirmed that Los Angeles Unified School District (LAUSD) rejected their charter authorization, but that there is no animosity and the two groups still communicate. The financing team believed the decision was based on

financial concerns, and that the schools could not meet the enrollment and budget projections. They believe they will be able to get renewed with LAUSD in the future.

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

*Item 7: Resolution No. 17-03 – Resolution Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$10,000,000 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 use by Granada Hills Charter High School*

Ms. Johantgen introduced the item and the financing team; Eugene Straub, Chief Business Officer at Granada Hills Charter High School, Bill Wildman, Managing Director of Piper Jaffray & Co., Marc Bauer, Senior Associate at Orrick, Herrington & Sutcliffe.

Mr. Wildman started by explaining the details of the financing to the Board; a refinancing that needs to close by April 1<sup>st</sup>. They expect a rating by February 17<sup>th</sup> and the pricing in the first week of March, and closing in the third week of March. He also specified that the rating will be upgraded to what he believes will be an investment grade rating. Mr. Straub finished by explaining the history of the school and its academic achievements.

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

*Item 8: Resolution No. 17-04 – Approval of Financial Soundness Determination for KIPP King located in Alameda County for an Advance/Final Apportionment through the Charter School Facilities Program*

Ms. Johantgen brought up Ryan Storey, Analyst for the Authority, to present the item. Mr. Storey explained that this financial soundness determination takes into account a rehabilitation project that is expected to be completed in 2017. He then gave the Board some specifics regarding the school and its parent company, KIPP Bay Area, detailing their finances and proliferation in the region.

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: Consideration of Appeal on Behalf of Westchester Secondary Charter School located in Los Angeles County Related to Ineligibility for the Charter School Facility Grant Program*

Ms. Johantgen informed the Board that this item has been resolved at the Staff level.

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

Respectfully submitted,

Katrina Johantgen