

# CALIFORNIA SCHOOL FINANCE AUTHORITY

## Meeting of the Board

Tuesday, May 9, 2017

10:00 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  
Jodie Jones, Program Analyst  
Kristen Schunk, Program Analyst  
Anne Osborne, Program Analyst  
Nicolaus Seppi, Office Technician

Before opening the Board meeting, Chairperson Brown noted that the phone system was not operating, after which he declared a quorum present after roll call.

Item 2: Approval of Minutes: The minutes from the March 20, 2017 Authority Board meeting were presented to the Board and approved unanimously by roll call.

### Item 3: Executive Director's Report

Due to the size of the agenda, Ms. Johantgen quickly highlighted for the Board that applications for the Charter School Facility Program (CSFP) and the State Charter School Facility Incentives Grant Program (Incentives Grant) Round 13 are online and that the Charter School Facility Grant Program (SB 740) application will also be posted online.

Item 4: Revision to Resolution No. 17-02 – 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 at an expanded number of educational facilities sites

Ms. Johantgen introduced the item regarding a reauthorization of an item previously seen in February. The school wants additional capacity for a project at the Prepa Tec Los Angeles

High School facility. This item was not previously noticed, but now has its Tax Equity and Fiscal Responsibility Act (TEFRA) requirement.

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 5: Resolution No. 17-09 – Authorizing Amendments to an Indenture and Loan Agreement each dated as of June 1, 2014, relating to the California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014A and Series 2014B (Taxable) and Related Matters

Ms. Johantgen explained that the item will authorize amendments to a previously approved project from 2013, financed in 2014. Approving the amendments will allow the financing to be added to a new obligated group, as well as change the trustee.

Ms. Johantgen introduced the financing team: Neal S. Millard, Partner at Musick, Peeler & Garrett LLP; Eugene Clark-Herrera, Partner at Orrick, Herrington & Sutcliffe; and Christine Cadman Rankin, Senior Associate at Orrick, Herrington & Sutcliffe. The financing team briefly discussed the item, explaining that this amendment will allow the 2014 financing to be managed equally with the next proposed financing.

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. 17-10 – Resolution Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$25,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Los Angeles County, Orange County, and San Diego County for use by Magnolia Educational and Research Foundation, Authorizing Certain Amendments, and Related Matters

Ms. Johantgen began by notifying the Board that there was a change to the district and the back-office provider in the item summary before continuing. The financing team also came up to answer questions. Five people joined Mr. Millard, Mr. Clark-Herrera, and Ms. Rankin at the table: John Phan, Principal, Urban Futures, Inc; Caprice Young, CEO, and Nanie Montijo, CFO, of Magnolia Public Schools; Ben Kaufman, Partner, Hamlin Capital Management, LLC; and Eric Duran, Managing Director, D.A. Davidson & Co.

After a quick discussion regarding updates to the staff summary, Ms. Johantgen explained the item and the breakdown of the uses of the funding as well as the schools receiving funding. Ms. Young went into greater detail, explaining the background of the financing itself and the involved schools. For Magnolia Science Academy (MSA) Reseda, they were able to purchase a property that allowed them to build a larger facility. At MSA Santa Ana, financing will be used to make improvements to a Prop 1D facility. At MSA San Diego, the district is leasing land to allow for the construction of a new facility.

Ms. Johantgen and Mr. Paxson then highlighted the new funding restrictions for this financing, explaining that the minimum denominations used for this financing had been lowered from \$200,000 to \$100,000, which the financing team explained was used as a means to reduce and control risks.

In response to a question from Ms. Ortega, Mr. Phan explained there were multiple reasons for the 6.25% interest rate; that the original interest rate in 2014 was 6.25%, one project was on leased land, one project was a secondary project off of Prop 1D, and approval was needed by the Bondholder, Hamlin, who was willing to negotiate to a somewhat lower rate of 5.25%-5.5%. They also confirmed the deal is non-rated.

Mr. Schweizer also confirmed that Magnolia Educational and Research Foundation (MERF) was the sole member of Magnolia Property Management.

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 7: Resolution No. 17-11 – Resolution Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$5,400,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Los Angeles County for use by Camino Nuevo Charter Academy*

Ms. Johantgen explained that these are refinancings totaling \$5.1 million and will be a private placement with Wells Fargo with no taxable component, due to the low issuance cost. She added that there is a slight modification to the fee restrictions for this deal.

Ms. Johantgen explained that the financing team requested the State-level intercept not be used for this financing, as it would be easier for funds to go from the school's accounts at Wells Fargo directly to Wells Fargo as the investor. Mr. Millard from the financing team explained that this would not weaken the State's position, since the State is still issuing the bonds.

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 8: Resolution No. 17-12 – Resolution Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$25,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Santa Clara County, California for Escuela Popular Del Pueblo*

Ms. Johantgen introduced the item, explaining this deal would be Escuela Popular Del Pueblo's third approval from the Board. Bill Wildman, Managing Director from Piper Jaffray, explained the details and the current status of the financing to the Board, as well as the project scope and history of the school itself. The project is located in two different districts, which has been the cause of multiple delays, but that there is no change in the project since the last approval from the Board.

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 9: Resolution No. 17-13 – Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$25,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in San Diego County, California for use by High Tech High

Ms. Johantgen introduced the item, explaining it is a reauthorization of a financing from 2016 to add an additional component to the existing project.

Mr. Wildman from Piper Jaffray explained that the financing team was expecting an investment grade rating from Moody's later in the week. The team came back to the Authority to modify the use of available funds on the advice of their counsel. Mr. Wildman also confirmed for the Board that the previous issuances had been BB+ from Finch, but Finch was no longer rating charter schools. Mr. Wildman further discussed some of the history of High Tech High and how they had grown to thirteen schools with over 5,000 students.

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 10: Resolution No. 17-14 – Approval of Financial Soundness Determination for Ocean Charter School located in Los Angeles County for an Advance/Final Apportionment through the Charter School Facilities Program

Ms. Johantgen introduced the item and called the financing team to the Board: Gordon Engstrom, back-office provider from ExED on the phone; James Bush, consultant, Kristy Mack-Fett, Director, and Stephanie Edwards, Executive Director, from Ocean Charter; and Ron Johnson, construction manager, from Red Hook. Ms. Johantgen explained that the financial soundness review under Prop 1D is for a final apportionment of approximately \$51 million. She noted that, given the total project cost figure of \$69 million, the gap in financing will be funded through an augmentation grant from Los Angeles Unified School District (LAUSD).

Mr. Schweizer asked multiple questions regarding risk and if the school has any contingency plans or backup if fundraising goals cannot be reached. He noted that the school seems heavily reliant on contributions, which the school plans to augment by four to five times the preceding year's contribution total, and also noted a concern about the deal being contingent on a grant augmentation from LAUSD. The financing team explained that the grant augmentation from LAUSD was offered in order to avoid cuts to the project after costs increased. Ms. Johantgen confirmed if anything extraordinary happened, the school would return to the Board.

Mr. Schweizer moved the item with reservation, suggesting the school develop a solid contingency plan, as there is potential for the project and the planned fundraising to not go as planned. Ms. Ortega seconded. After a call for public comment, the resolution was approved unanimously by rollcall.

Item 11: Resolution No. 17-15 – Adoption of Proposed Regulations for the Charter School Facility Grant Program (Senate Bill 740) and Authorizing the Regular Rulemaking Process

Ms. Johantgen invited Ian Davis up to the Board, explaining that this is a new rulemaking process that incorporates some items from previous emergency regulations that the Authority is now attempting to make permanent, as well as additional changes proposed for the permanent regulations, which he explained to the Board.

The following changes are in regards to ineligible costs in section 10170.4:

- Language added to Item 5, “or administrative costs will not be eligible” which will exclude costs of back-office support, similar to educational costs
- “...lease costs assessed to the charter school based on grant funds awarded to the charter school by the Authority during the same funding round.” There have been leases where lessors request a percentage of the award given to the school. As the award is based on 75% of annual facility costs, it is impossible to calculate an entire facility cost if lessor is requesting additional rent costs after the school is awarded. Comments are not expected for this language.
- Item 7(b): “...facility rent and lease cost previously purchased and paid in full by the charter school using State Incentive Funds.” School must hold title of property to purchase under the Incentives Grant, which should not have a lease cost if paid in full, but schools have asked when they can start charging rent.
- Item 8: The Authority will reimburse rent to own costs so long as lease payments do not lower the final purchase price. Would prevent schools from using funds to purchase a facility.

The Authority wishes to make the following additions for Average Daily Attendance (ADA):

- “ADA applied to school itself will only be for eligible site.” ADA is used to determine awards, so ADA located on an ineligible site, like a district site, will not be included.
- (e)(1): For schools where students move between multiple facilities in a day, the school must now apply ADA based on square footage ratio of eligible sites in their application.
- (e)(2): For schools with students that remain in one location the entire day, the school will be required to self-certify ADA between eligible and ineligible sites.

After some additional commentary on the rulemaking process, Ms. Ortega made a motion to approve and Mr. Schweizer seconded. After a call for public comment, a gentleman representing the California Charter School Association (CCSA) came before the Board, and explained that the CCSA has concerns with the wording of the good standing provisions in 10170.3(f) included in a part of the emergency regulations the Authority is also attempting to make permanent. The CCSA believes that it can be used to prevent schools from being funded, and suggests that the good standing requirement be changed to say that a school is in good standing unless corrective action is specifically taken by the authorizer.

Ms. Johantgen was asked if she had anything to say regarding the comments. She confirmed that these provisions are an ongoing concern of the charter community. She said that, out of 400 applications in the last funding round, approximately ten were originally found to be in bad standing, of which, four were eventually able to cure their issues with their authorizers. The Authority also works with schools to correct good standing issues with authorizers, and that changing the procedure would not prevent authorizers from withholding funding. Additionally, a good standing requirement exists in all Authority programs except conduit bonds, all of which the Board has approved. With no other public comment, the

resolution was approved unanimously by rollcall. Before continuing, Chairperson Brown asked the Authority to keep them informed of any changes during rulemaking process.

Item 12: Resolution No. 17-16 – Approval of Revolving Loan Fund Program  
Recommendations and Amounts for the Schools

Ms. Johantgen called Kristen Schunk before the Board, explaining some of the history of the program before continuing. The Authority is currently in its fourth year of administering the program, and there is \$10.4 million available for this funding round.

Ms. Schunk went through the staff summary with the Board, explaining the loan recommendation matrix. Of the thirty-one priority one applications received, twenty-three are on the agenda for initial approval, totaling \$5.73 million. The Authority is still reviewing five priority one schools; three have withdrawn their applications. The Authority has started reviewing twelve priority-two schools, which are schools which are already in operation. The Authority plans to bring award recommendations to the Board in June. Ms. Johantgen added that defaulted loans from before the Authority had the program have been written off.

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 13: Litigation – Discussion with Legal Counsel Regarding Pending Litigation

The Board requested the room be cleared for a closed session. After the Board reopened the meeting, no action was taken on the discussed items.

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

Respectfully submitted,

Katrina Johantgen