

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Thursday, August 3, 2017
2:00 p.m.

915 Capitol Mall, Room 587
Sacramento, California 95814

Deputy State Treasurer Steve Juarez, serving as Chair, called the meeting to order.

Roll Call

Members Present: Steve Juarez, 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, Manager
Ian Davis, Program Analyst
Jodie Jones, Program Analyst
Alexandra Tkacheff, 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 Juarez declared a quorum present after roll call.

Item 2: Approval of Minutes: The minutes from the June 14, 2017 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 (SB740): True-up reviews for 2016-17 awards and vetting for new 2017-18 applications are underway.

Charter School Revolving Loan Fund Program: The Authority is working on delivering funds to schools that have been approved. Of the thirty-six approved applications, only twelve have returned the necessary documents to allow the release of funds. The Authority is also exploring the possibility of a second funding round under this program.

Conduit Bond Program: The KIPP-LA deal priced the morning of August 3rd with a relatively low interest rate.

Charter School Facilities Program: The application period for Proposition 51 has closed, and the Authority is evaluating applications that have been ranked by the Office of Public School Construction (OPSC). The Authority and OPSC received 186 applications for nearly \$3 billion in financing, but will review no more than \$1 billion, due to the program only having

\$500 million available. The applications were chosen based on OPSC's scoring method which allows the Authority to review only the highest scored projects / projects likely to be awarded a preliminary apportionment.

State Charter School Facilities Incentive Grants Program: The Board will look at approving Round 13 awards today.

Charter School Facilities Credit Enhancement Grant Program: The Authority applied for a federal grant in May, and will have a response by September. Federal representatives are also visiting the sites of current subgrantees with Authority members in September.

Administrative and Legislative Update: The Authority will be reporting on the new Qualified Public Education Facility Bond Program, volume cap allocation for for-profit developers of public schools to access tax-exempt bonds.

Item 4: Resolution No. 17-21 – Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$55,000,000 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 Counties, California for use by Summit Public Schools at educational facilities sites including an administrative office

Ms. Johantgen introduced the item and financing team to the Board: Joyce Montgomery, Vice President of School Finance, and Cameron Johnson, Finance Manager from Summit Public Schools; John Kim, Managing Director, Guillermo Garcia, Director, and Andrew Yassa, Director from Stifel, Nicolaus & Company, Inc. and; Christine Rankin, Senior Associate from Orrick, Herrington & Sutcliffe LLP.

Mr. Kim guided the Board through a prepared presentation. He explained the issue is on behalf of the borrower, Community High School Foundation Inc., a separate non-profit with its own Board, for a third of \$1.67 million, with philanthropic funds being used for additional equity. The financing itself is an Obligated Group, with independent LLCs supported by Community High School Foundation Inc., which rents the structures to Summit Public Schools. Mr. Kim detailed the projects in the financing and the possibilities of growth for the two schools. He expects an investment grade rating, but confirmed for the Board that if the financing is unrated, they will follow the fee restrictions required in the program regulations.

Ms. Montgomery explained the history and the current status of Summit Public Schools as well as some of their charitable funding sources and awards, claiming that due to their successes, they offer free advice to schools nationwide. She lastly discussed the specific schools getting awards. When asked by the Board, the team attributed their success to their Research and Development team, as well as the composition of their schools, their teacher training, and the long-term student guidance programs.

The Board expressed concern regarding California state revenues being used to support Washington Summit schools. Ms. Rankin explained that such a situation is theoretical, since financings from the Washington schools are currently only used to support the home office; California money is not leaving the State. In the future, that is an issue that will need to be resolved separately. The Board advised Summit to proceed carefully with both the Washington schools and the use of tax-exempt 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 5: Resolution No. 17-22 - Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$18,000,000 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 Bright Star Schools

Ms. Johantgen said that Item 5 has been held over at the request of Bright Star Schools.

Item 6: Consideration of Appeal on Behalf of Alta Public Schools located in Los Angeles County Related to Ineligibility for the Charter School Facility Grant Program

Ms. Johantgen explained the history of the Program and issues that came up in previous years regarding the acceptance of late applications. The Board previously decided that any late application that fulfilled all other program requirements should be accepted if the program had funding capacity. This year (2017-18), the program is oversubscribed.

Ms. Johantgen introduced the item, explaining that parents and students wished to speak on behalf of the school after a presentation from the school representatives; Xavier Reyes, Chief Executive Officer, and Ervin Reed, Director of Finance of Alta Public Schools.

Mr. Reyes introduced himself and detailed the history, community importance, and academic achievements of Alta Public Schools (APS). Mr. Reed continued, guiding the Board through a prepared presentation addressing the problems that losing funds would cause. He stressed that APS is building a middle school, and that without the funding from SB740, APS would not be able to afford the debt service, and would also need to reduce teacher hiring. When asked by the Board why they did not meet the June 1, 2017 filing deadline, they explained they tried to save money by not using a back-office provider, who usually submitted the applications. They also said they had been in transition for several years. When asked to explain why their case should be considered extraordinary, the representatives said that the schools that apply for this grant are in desperate financial need. Mr. Reyes also stated there was a technical issue with his old email address, so he did not receive all the emails about the application period.

Ms. Johantgen told the Board how funding would be impacted, and that the Authority is working on new regulations to clarify pro rata funding since the program is now oversubscribed. Ms. Johantgen explained that oversubscription is due to an increase in funding based on Average Daily Attendance (ADA). Ian Davis was invited to discuss the SB 740 program's current statistics, explaining that the Authority has 426 eligible applications, but will need \$114 million to fund them all. Additionally, any increase in other costs or ADA will raise that amount. The three schools in the appeal would be eligible for an award of \$880,000, so will lower each other applicants award by 0.7% to 0.9%.

The Board opened the floor for public comments. Student leaders and multiple families stated their case and their support for the school, and requested the Board approve the appeal so they would not lose out on necessary funding.

Chairperson Juarez explained that this is not an easy decision, and that leadership within the Treasurer's office gave this appeal a lot of attention, as it will affect other school programs. Mr. Juarez made a motion to approve the appeal, but said that the Board should follow the rules moving forward, and cautioned the school representatives that a similar appeal filed by them in the future would be extremely difficult to grant a second time.

Mr. Schweizer said he dislikes funds being lost due to administrator error, seconding the motion, but stressed that the administrative needs of the school cannot be neglected. He is uncomfortable with waiving the policy, and suggests it should be reviewed, if more appeals are approved, since it will make the program difficult to administer by staff.

Ms. Ortega voiced concern that the program will reduce grants later in the year due to additional appeals, considering approving this appeal will lower awards for schools that delivered their applications on time. Mark Paxson, General Counsel for the State Treasurer, explained that statute requires 75% of eligible costs be paid to the school in two payments, and that pro rata reductions will only occur at the end of the school year.

Chairperson Juarez, following Ms. Ortega's comments, suggested that if late applications are accepted in the future, the Authority should not disburse any of their funds until true-up, to be fair to other schools and avoid affecting any other awards.

After additional discussion of the item, the motion made by Chairperson Juarez and seconded by Mr. Schweizer was approved unanimously by rollcall.

Item 7: Resolution No. 17-23 – Approval of State Charter School Facilities Incentive Grants Program Recommendations

Ms. Johantgen explained the item and described the program and its rules and how the applications are scored. The current funding round used the new online application and received 126 applications, a 50% increase over last year. Applicants from schools in district facilities increased as well, since they are not allowed to apply for SB 740 funds. Lastly, the Board and Ms. Johantgen discussed some of the processes that go into scoring and determining awards.

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

Before the close of the meeting, Ms. Johantgen thanked Mr. Juarez for chairing the meeting, as well as staff for their work. She also introduced a new employee, Alexandra Tkacheff.

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

Respectfully submitted,

Katrina Johantgen