

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, October 11, 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, Manager
Ian Davis, 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 roll call.

Item 2: Approval of Minutes: The minutes from the September 13, 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): The 2016-17 true-up is 99% complete, accounting for \$98 million of the \$112 million appropriated. The Authority is bringing a series of regulation changes today addressing the issue of pro-ration.

Charter School Revolving Loan Fund Program: The Authority posted the annual report by its October 1 deadline, and will be changing the methodology used in stress-testing enrollment projections, as lack of enrollment seems to be the cause of schools defaulting on their loans.

Conduit Bond Program: The Authority is presenting one financing today for Rocketship Public Schools, and the Summit financing closed last week with a record rate of under 4%.

Charter School Facilities Program (CSFP): The Authority is reviewing applications under the Proposition 51 funding round. Three district dependent charters will be voted on today. The Office of Public School Construction (OPSC) will make preliminary apportionments (reservation of funds) in January, so financial reviews must be finalized by the Authority's January Board meeting.

State Charter School Facilities Incentive Grants Program: The Authority has finalized Round 13 awards and sent Grant Agreements to awardees. There have been some delays, due to districts not yet completing facility use agreements with schools.

Charter School Facilities Credit Enhancement Grant Program: The Authority received an award of \$8 million, and will attempt to grant these funds in a way that they are quickly repurposed for other projects. The Authority expects regulations to be presented in January. Ms. Ortega confirmed that the program will allow flexibility in the use of its funds, likely similar to the current CSFP application where options are offered for additional projects.

Qualified Public Educational Facility Bond Program (QPEFB): The Authority will be launching a program webpage and expects financing applications for this program in the next few months. There is interest from housing and charter school developers.

Administrative and Legislative Update: The Authority will be pursuing, or working with stakeholders in pursuing, legislative changes to the SB740 program in the near future.

Item 4: Resolution No. 17-25 – Resolution Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$19,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Contra Costa County and Santa Clara County for use by Launchpad Development Company

Ms. Johantgen introduced the financing team to the Board: Keysha Bailey, Chief Financial Officer, and Laura Kozel, Vice President of Capital Finance from Rocketship Public Schools; John Kim, Managing Director from Stifel, Nicolaus & Company, Inc., and; Christine Rankin, Senior Associate from Orrick, Herrington & Sutcliffe LLP.

Mr. Kim started by explaining the specifics of the financing to the Board. The majority of funds will be used to build a new school in Antioch, added to the existing Obligated Group (OG). The proceeds will also refinance loans used to buy the land, and improvements at other facilities. However, no rating is being pursued since the financing team would rather be assured of an investment grade before going public.

Ms. Bailey continued with a prepared presentation, discussing the schools included in the OG and their company-wide test scores. Antioch is Rocketship's newest school, expected to open in fall 2018. At full capacity, the school will house 650 students and have revenues of \$2.5 million, double debt service coverage.

The financing team explained that language was added to this financing in coordination with the Authority regarding what relationship out-of-state schools will have with the financing:

- Schools agree not to use apportionment money outside of its intended purpose.
- Schools will not allow intercepted money to be directed to out-of-state schools.

After the Board clarified the rules regarding enrollment expectations and the extent of the OG, 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. 17-26 – Approving Financially Sound Determinations for the Charter School Facilities Program (CSFP) Applications Received under the Proposition 51 Funding Round

Ms. Johantgen introduced the item and described the Authority's roll in CSFP, explaining that the Authority is responsible for determining the financial soundness of CSFP applicants. She explained the methodology used in the review process, and said that the three schools, Sierra Foothill, Washington Middle College, and Bellevue Santa Fe, are district-dependent charter schools and that their soundness is contingent upon successful General Obligation (GO) bond sales.

After a discussion regarding the schools operating under a financial deficit and their reliance on GO 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 6: Resolution No. 17-27– Adoption of Proposed Regulations for the Charter School Facility Grant Program (Senate Bill 740) and Authorizing the Emergency Rulemaking Process

Ms. Johantgen invited Ian Davis, co-lead of the SB 740 program, to discuss the proposed changes to the CSFGP regulations. With the increase in funding per ADA from \$750 to \$1,117, the program is anticipated to be oversubscribed. The following changes allow CSFA to implement the proration of the available program funds. These changes will take effect for the 2017-18 funding round, unless otherwise noted, and define the implementation of pro-rata payments:

- "Definition" section now complies with Education Code by increasing cost per ADA. Starting in 2018-19, this amount will increase by the Cost-of-Living Adjustment (COLA).
- "Eligible Cost" section modified to ensure facility costs are at or below market rate, to prevent inflated rent or lease costs. This section will take effect in Fiscal Year 2018-19.
- "Apportionment of Grant Funds" section, added subsection to redefine the award process, specifically the pro ration calculations and new disbursement processes. These changes will also ensure that schools are not overfunded, which can delay true-up payments for other schools if money is owed to the program.
- Regarding the Appeal process, schools will be allowed a single extension of up to 30 days to provide additional information. If schools are unable to meet the deadline and the extension, staff determination will be final.

The Board discussed the causes of the current oversubscription of the program with Ms. Johantgen, who explained that there were four main causes: an increase in reimbursement per ADA, an actual rise in ADA among schools, an increase in other cost requests, and more applicants.

Mr. Davis then read a public comment from Eric Premack from the Charter Schools Development Center, stating that the requirement of an appraisal on new facilities will be an undue burden on charter schools. Mr. Premack believes that appraisers can be convinced to inflate the value of a property. Mr. Davis explained the Authority made these changes to limit the costs a school can place upon itself, especially for schools that own their own leases, and instead, that leases should increase based on increases in COLA. Currently, if a school

changes lessors or adds a facility, the new lease can be valued based on what the market will bear, which this change will attempt to correct. The Board discussed the issue but confirmed that appraisals should be required as they are used by other State departments such as the Department of General Services.

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 said it was possible that there may be two November meetings due to the number of CSFA Financial Soundness Determinations that need to be evaluated by the Board. There being no additional public comments or other business to conduct, the meeting was adjourned.

Respectfully submitted,

Katrina Johantgen