

CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, September 12, 2018

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
Nick Schweizer, designee for Tom Torlakson, Superintendent of Public Instruction
Jacqueline Wong-Hernandez, designee for Keely Martin Bosler, Director of Finance

Staff Present: Katrina Johantgen, Executive Director
Laura Martinez, Manager
Ian Davis, Program Analyst
Kristen Schunk, 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 August 17, 2018 Authority Board meeting were presented to the Board and approved unanimously by roll call.

Item 3: Executive Director's Report: Ms. Johantgen informed the Board that staff is working on the 2017-18 true-up for the Charter School Facility Grant Program (SB 740) and is working on implementing trailer bill language for the 2018-19 application period. The Department of Finance notified the Authority that they approved the Revolving Loan security fund transfer, so the Authority will bring priority 2 schools to the Board in October or November. The Authority received permission from the Board to extend current Bond application timelines to develop additional policies regarding the types of applications and financings it will accept, and will bring those policies to the Board at a later date. The Authority sent out all program agreements for the Charter School Facility Program (CSFP) and the Facilities Incentives Grant Program. The Authority is working with the Office of Administrative Law (OAL) on the Project Acceleration Notes and Credit Enhancement Alternatives (PANACEA) Program regulations, and it is likely that the Authority will post the regulations for another 15-day notice period. The Authority will update program regulations following the passage of AB 406, the for-profit charter school ban. Chairperson Brown noted that credit agencies anticipate improving credit ratings for the State and charter agencies as a result of the passage of AB406.

Item 4: Resolution No. 18-19 – Green Dot Public School Revenue Bond Financing

Ms. Johantgen introduced the item to the Board and explained that the financing team removed items from the resolution that morning. She called the financing team up to speak to the Board: Sabrina M. Ayala, Project Consultant for Delta Financial Associates; John Buck, Financial Advisor for Buck Financial Advisors LLC, and; Eugene Clark-Herrera, Partner at Orrick, Herrington & Sutcliffe LLP.

Ms. Ayala, started by discussing the individual projects in the financing, and how they interact with each other. She also described how the Green Dot Public Schools operates in California and nationally, its mission statement, business model, academic achievement, and highlighted Green Dot's investment grade rating. Ms. Ayala and Mr. Clark-Herrera explained the financing structure of the Obligated Group, the use of the intercept mechanism, the security of the bonds, and the bond covenants. Mr. Buck explained they removed one of the Projects initially noticed, which lowered the necessary funding.

The Board raised issue with the large par amount of bonds noted in the authorizing as compared to the actual costs of the project outlined in the staff summary. It was suggested that the resolution reflect an adder of 10% to the amount outlined in the staff summary, resulting in a \$65,000,000 authorization amount. Additionally, Mr. Schweizer advised the financing team to be open with their authorizers and involve them in the financing process, as there could be concerns when involving multiple authorizers in an Obligated Group.

Mr. Schweizer made a motion to approve the amended resolution of \$65,000,000 and Ms. Wong-Hernandez seconded. After a call for public comment, the Board approved the resolution unanimously by rollcall.

Item 5: Resolution No. 18-20 – KIPP Bay Area Public Schools Loan Financing

Ms. Johantgen called the financing team before the Board and clarified that this is a tax-exempt bank loan held by Mutual of Omaha with a rate of approximately 4.25% interest rate. She introduced the financing team: Cory Harris, Managing Director of Finance, and Lisa Raffetto, Associate Director of Finance, at KIPP Bay Area, who joined Mr. Buck and Mr. Clark-Herrera.

Mr. Harris described the regionalization of the KIPP national organization and the differences between the regional organizations. He described the financing structure and the projects involved with the financing to the Board, the individual schools involved with the financing.

Ms. Wong-Hernandez made a motion to approve and Mr. Schweizer seconded. After a call for public comment, the Board approved the resolution unanimously by rollcall.

Item 6 Resolution No. 18-21 – Alta Public Schools Bond Financing

Ms. Johantgen introduced financing team to the Board; Ervin Reed, Director of Finance at Alta Public Schools, and Guillermo Garcia, Managing Director at Stifel, Nicolaus & Company, Inc., who joined Mr. Clark-Herrera.

Mr. Reed explained the structure of the organization, its mission statement, and described the individual projects included in the financing. Mr. Clark-Herrera added that Alta is preparing an Obligated Group structure for all of their school financings.

Mr. Garcia described the financing structure and strength of the school, and provided details on the project. He discussed how the involved property is a special case, as it was involved in a Chapter 8 bankruptcy, so additional authorizations were required from all levels of government. He hopes to be at market within 4 weeks of approval.

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

Item 7: Resolution No. 18-22 – Aspire ERES Financial Soundness Determination

Ms. Johantgen introduced the item and provided an overview of the Aspire ERES financial soundness determination, for which staff recommends approval.

Ms. Johantgen noted that several members of the public wished to speak to the Board regarding the Aspire ERES item. The following individuals addressed the board: Michael Taylor, kindergarten teacher at Think College Now; Ishmael Armendariz, special education teacher and disability rights advocate; Alejandro Estrada from International Community School, and; Keith Brown, teacher at Bret Harte Middle School.

The four speakers discussed several issues with the Board, touching on subjects regarding the enrollment in Oakland Unified School District (OUSD) schools when new charters open, related budgetary concerns, and the multiple findings of the “Spending Blind” report.

The Board explained that previous speakers have raised these issues, and that comments would be more appropriately raised with the California Department of Education and the legislature. The board reiterated that the Authority’s scope is narrow as it relates to financial soundness reviews, but is doing what it can within the confines of its statute, including good standing letters and rules regarding conflicts of interest.

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

Item 8: Consideration of Appeals for the Charter School Facility Grant Program

Ms. Johantgen introduced the item to the Board and invited members of the public who wanted to speak: Moira Topp, representing the CCSA; Eric Premack, representing the Charter School Development Center (CSDC); John Wenger, representing Imagine Schools, and; Ann Swinburn, representing the California Teachers Association (CTA).

Mr. Wenger thanked the Board for allowing them to appeal. He explained that the school operated during the 2017-18 school year and was in good standing, and claims that the authorizer never contacted the school or alerted them of any issue, acting inappropriately.

Ms. Topp supports the appeal, and wanted to highlight that the school had incurred eligible costs while it was open. She says that charters approved for their 5-year terms are guaranteed resources and funding for the full term, and so had their resources unfairly

stripped from them. The CCSA is also willing to work with the Authority on good standing letters to ensure compliance, since she says this case challenges the regulations.

Mr. Premack stated that he was not speaking for Imagine, but for CSDC's members regarding issues with the Authority's good standing letter. Namely, there is no definition of "good standing" and that the school must appeal to the authorizer that denied it. He said there are already provisions in the law that explain how to revoke funding and discussed the different types of revocation proceedings. He agreed that the Authority should look at regulations again.

Ms. Swinburn agreed with the staff recommendation, explaining how Imagine Schools is reflective of why the charter industry is in need of reform, explaining the relationship between the school, lessor, and corporation and how they interact with each other.

The Board explained to Ms. Swinburn that the item was not regarding the leasing and administrative structure of the school, but acknowledged her support of the staff recommendation. Mr. Paxson explained that the regulations only give the Board authority to overturn procedural defects, but good standing is an ongoing requirement.

Mr. Schweizer explained that the issues brought up by Ms. Swinburn applied to many obligated groups, and that while charters are supposed to be innovative, it causes oversight problems. He stresses that those in the charter industry need to think carefully about innovations like this, as well as transparency.

The Board said that members of the public brought up concerns with the regulations, and that staff should look at the timing of good standing letter as well as a specific definition of good standing, and suggests speaking with stakeholders for assistance.

However, the Board members agreed that they could not make an exemption for a closed school. The Board took no action on the appeal, letting the staff recommendation stand.

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

Respectfully submitted,

Katrina Johantgen