CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Wednesday, November 9, 2011
10:00 A.M.

915 Capitol Mall, Room 587
Sacramento, California 95814

Deputy State Treasurer Tricia Wynne, serving as Chair, called the meeting to order.

Roll Call

Members Present: Tricia Wynne, designee for Bill Lockyer, State Treasurer
Kathleen Moore, designee for Tom Torlakson, Superintendent of Public Instruction
Nick Schweizer, designee for Ana Matosantos, Director of Finance

Staff Present: Katrina Johantgen, Executive Director
Terri Kizer, Program Analyst
Steven Theuring, Program Analyst

The Chair declared a quorum present.

Approval of Minutes

The minutes for the October 12, 2011 Authority Board meeting were approved as submitted.

Executive Director's Report

Katrina Johantgen, Executive Director, introduced Erin Cunneen, who works for the Office of Public School construction (OPSC). Ms. Cunneen is the new OPSC Project Manager for the Charter School Facilities Program (CSFP).

Ms. Johantgen informed the Board members that the changes to the CSFP regulations were submitted to the Office of Administrative Law last week and the Authority is currently working through the rulemaking timeline.

With regard to the State Charter School Facilities Incentive Grants Program, Authority staff is anticipating responses from interested parties regarding the changes to the regulations which include the planned increase in the driving distance for Overcrowded School Sites, AYP school choice and API school choice to five miles for suburban schools and to 10 miles for rural schools that is determined by the Locale code assigned by the U.S. Department of Education. The deadline to submit public comments is November 21, 2011.

Ms. Johantgen informed the Board that as funding becomes available, staff is continuing to fund alternates under Round 5 to ensure all available grant funds are distributed before the end of the grant program in September 2012.

The Authority is currently working with legal counsel and the Attorney General's office on a proposal for hardship school districts. In 1999 – 2000, the Authority issued notes on behalf of districts that had a reservation of funds from the State but did not have actual bond proceeds to disburse for the projects. The Authority was approached by the districts and their financing teams requesting to use the provision for hardship district, which get the award but do not get the same funding--this would essentially function as bridge financing. The Authority has not received any formal applications for this financing. If any applications are received, they will be presented to the Board for approval early next year.

Ms. Johantgen informed the Board that the State issued bonds on behalf of the CSFP program to fund the next round of advances. QSCB's are also being sold to fund construction projects. Staff is also working on a working capital application being submitted by Citi, First Southwest Company, and Orrick Herrington and Sutcliffe. A presentation on the proposed financing is anticipated at a future board meeting.

Mr. Steven Theuring, Program Analyst, updated the Board on the following past issuance: Aspire has paid back off $5.58 million of its $6.85 million RAN through the intercept mechanism; Birmingham has been paid off completely; Vaughn, Granada Hills Charter School and New Jerusalem have all begun either their sinking fund payments and/or payments to the principals through the base rental payment for the QSCB issues.

Regarding QSCB allocation, Livermore still has allocation which expires on December 31, 2011. Campbell Unified is about to close their QSCB financing; Alliance for College-Ready is finalizing their issuance of $22 million; and West Contra Costa is finalizing their issuance of $21 million. Ms. Wynne inquired about the balance of the QSCB fund. Of the $141.9 million QSCB fund, $131 million has been allocated; $36.56 million has been issued by the Authority and $70 million by others. Mr. Theuring also explained the difference between sinking fund payments and payments on the principal of a QSCB to Ms. Moore. The sinking fund payments are payments made for both the interest and principals to the bond holder. These payments are kept in the sinking fund; while the interest is paid out to the bond holder every time an interest payment is made, the principal isn't paid out to the bond holder until the bond has matured. All payments are being made through the intercept mechanism.

<u>Resolution No. 11-43 – Approving Financially Sound Determinations for the Charter School Facilities Program Application for Advance/Final Apportionment for KIPP King Collegiate Located in Alameda County, California</u>

Ms. Johantgen and Mr. Theuring presented this item regarding the changes to the award amount for KIPP King (KIPP) for the new construction portion of the project. Mr. Theuring explained that in May 2008, the State Allocation Board awarded a Preliminary Apportionment in the amount of $14,649,816, which included $3,607,942 for rehabilitation and $11,041,874 for new construction. Since that time, the amount has been reduced by the Office of Public School Construction to $8,332,746 due to a built-in inflator that factors in all of the Preliminary Apportionments. Due to the reduction of the award amount, KIPP has rescinded the lump sum contribution originally pledged, as the school will need the full amount of the final apportionment to support the construction project. Mr. Theuring highlighted the difference to the debt service coverage ratio from the previous report presented in June 2011 to the current amount. In June, debt service ratio for 2013-14 and 2014-15 was 325.8% and 321.6%, respectively. The new projection would have a new debt service coverage ratio in 2013-14 and 2014-15 of 380.2% and 444.1%, respectively. One remaining concern for staff is the heavy reliance on contributions. KIPP will need to receive at least 86% of expected contributions in order to meet the 100% projected debt service coverage ratio threshold. Authority staff used the same assumptions in factoring in ADA, State Funding and COLA. When looking at KIPP's historical average and future projections in regard to their contributions, staff believes that the school will be able to raise their projected contributions in the future. Mr. Theuring reiterated that the intercept mechanism will be implemented to draw down the school's payment. Ms. Johantgen explained to Ms. Moore that the Authority's interpretation of the law in regard to financial soundness, was that the school will have to be able to make their lease payment on a break even basis; thus we calculate debt service coverage at 1x coverage.

Mr. Schweizer asked about the potential impact to the school's ability to repay the loan in the event the State's budget revenues trigger cuts to education funding. This item was delayed to allow time for staff to evaluate the potential impact of a four percent reduction to the school's revenue projections. Mr. Theuring returned to the meeting and discussion on this item resumed. Mr. Theuring advised a four percent decrease in projected revenues would result in revised debt service coverage ratios for 2013-14 and 2014-15 of 167% and 221%, respectively. These exceed the minimum 100% requirement for the program. Additionally, KIPP would need to receive at least 96% of their expected contributions.

After some discussion, Mr. Schweizer requested that going forward; staff's analyses include the statutorily identified trigger cuts related to the school's revenues and its ability to repay the loan portion of their awards.

It was moved, seconded, and passed unanimously to adopt Resolution No. 11-43, finding KIPP King Collegiate financially sound for purposes of its final apportionment for the new construction portion of its total award. This determination excludes the rehabilitation portion of the total award and is contingent upon KIPP electing to have its CSFP payments intercepted at the state level pursuant to Education Code Sections 17199.4 and 17078.57.

<u>Resolution No. 11-44 – Adoption of the Regulations for the Credit Enhancement Grant Program and Authorizing the Rulemaking Process</u>

Ms. Johantgen provided an update to the Board members regarding the status of the Credit Enhancement Grant award of $8.3 million received through the U.S. Department of Education's Credit Enhancement for Charter School Facilities Program (CFDA #84.354A).

Ms. Johantgen highlighted several aspects of the proposed Charter School Facilities Credit Enhancement Grant Program regulations. In response to requests from the U.S. Department of Education to include a priority for schools serving low income students, Section 10194 establishes that at least 50 percent of the school's pupils are eligible for free or reduced price meals; additionally, under Section 10196, after meeting all requirements under Section 10194, the school has to agree to use the intercept mechanism for making payments and has to be able to demonstrate an ability to leverage a loan-to-award ratio of at least 8:1. It was added that the Authority can evaluate student performance data, if available, for the last three years. It was also noted that applications will be reviewed on a first come - first serve basis.

In response to a question, Deborah Yang, Senior Counsel for the State Treasurer's Office, recommended Section 10195 (a) of the proposed regulations be revised to clarify that program funds must be applied toward funding the primary debt service reserve required for debt issued by or through the Authority for an Awardee to acquire, renovate, and/or construction school facilities, or refinance existing charter school facility debt to reduce overall borrowing costs.

In response to another question, staff will verify with staff of CDE to confirm whether free and/or price meal data collected by CDE and posted on its website is specifically related to students who are 'eligible' or 'enrolled' for the meals, and will ensure the available data is consistent with the criteria noted in Section 10194.

It was moved, seconded, and passed unanimously to adopt Resolution No. 11-44, adopting the draft regulations for the Charter School Facilities Credit Enhancement Grant Program as revised and authorizing the rulemaking process.

Public Comment

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

Respectfully submitted,

Katrina Johantgen
Executive Director