

# CALIFORNIA SCHOOL FINANCE AUTHORITY

## Meeting of the Board

Wednesday, November 13, 2013

1:00 p.m.

915 Capitol Mall, Room 587  
Sacramento, California 95814

Deputy State Treasurer Michael Paparian, serving as Chair, called the meeting to order.

### Roll Call

Members Present: Michael Paparian, designee for Bill Lockyer, State Treasurer  
Kathleen Moore, designee for Tom Torlakson, Superintendent of Public  
Instruction  
Eraina Ortega, designee for Michael Cohen, Director of Finance

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

The Chair declared a quorum present.

### Approval of Minutes

The minutes for the October 29, 2013 Authority board meeting were approved as submitted.

### Executive Director's Report

Charter School Grant Program Ms. Johantgen updated the members that staff is working to develop a Matrix for better reporting purposes, such as the one utilized in the annual award report for the State Charter School Facilities Incentive Grants Program, she stated she would using a similar Matrix for the SB 740 program.

Charter School Revolving Loan Fund Program Staff is preparing a statutorily mandated annual report and is working with the California Department of Education to obtain historical guidelines for the report and to project future fund balances.

Conduit Bond Program: Ms. Johantgen reported that a handful of deals are expected in the coming months. One will be presented in today's meeting and one is scheduled for January 2014.

Charter School Facilities Credit Enhancement Grant Program: Ms. Johantgen advised that all available funds have been exhausted.

Resolution No. 13-47 – Adoption of the Emergency Regulations for the Charter School Facility Grant Program and Authorizing the Emergency Rulemaking Process.

Ms. Johantgen updated the members on the transfer and adoption of regulations in July with regard to the Charter School Facility Grant Program. Since the implementation of the emergency regulations, staff and legal counsel are proposing three amendments to the emergency regulations that are intended to clarify certain provisions in the existing regulations as well as provide greater access to funds under the program.

Ms. Johantgen stated that future refinement of the regulations is needed relating to three substantive changes being presented in today's meeting. Changes are as follows:

- A provision was added to the Eligible Costs section, 10170.4, that will allow charter schools to maximize their grant awards for all permissible facility-related expenses;
- A provision was added that allows the Authority to waive procedural defects in the submission of an Application; and
- Language was amended in the conflict of interest section, 10170.14, based on feedback from charter school stakeholders. This provision related to conflicts of interest will be effective for the 2014-15 funding round under this program. However, staff and Authority counsel want the charter school community to have adequate time to cure any issues that could lead to a school being found ineligible due to a conflict of interest.

Ms. Johantgen added that staff counsel, Mark Paxson had worked with a group of stake holders to refine the language related to the topic of "Conflict of Interest". This appears to be a highly conflicted topic as the interpretation of "conflict of interest" can take on many meanings.

Ms. Moira Topp, representing the California Charter School Association, addressed the members and expressed her gratitude for the open lines of communication and dialog she and the Association have had with staff. She expressed concerns over the meaning and interpretation of this provision and hopes that the wording of the language is carefully reviewed and a precise interpretation is adopted as there is a potential for much confusion as it relates to charters and their authorizers.

Mr. Paxson, staff counsel, stated that a conflict of interest provision is already included in the existing emergency regulations that were adopted in July. The changes presented today are merely to refine the existing provision. Ms. Moore and Ms. Ortega discussed this matter further, all agreeing that careful review of the language was necessary. Ms. Moore agreed that this is an unparalleled topic as vested interests exist with public entities, public funds and a potential for unintended consequences and complications. Both, Ms. Moore and Ms. Ortega agreed that a clear standard and interpretation is needed for the long term language, they asked Ms. Topp to continue to express her written concerns and dialog with staff regarding this sensitive topic.

After much discussion it was noted that clear expectations and a uniform standard is necessary for everyone coming forward to access these funds.

Staff recommended that the Board adopt Resolution 13-47 approving the proposed amendments to the emergency regulations for the administration of the Charter School Facility Grant Program. If approved, the Executive Director will initiate a second emergency rulemaking file for processing by the Office of Administrative Law, and will distribute the proposed changes to interested parties in accordance with the emergency rulemaking process.

It was moved, seconded, and passed unanimously to adopt Resolution No. 13-47 approving the proposed amendments to the emergency regulations for the administration of the Charter School Facility Grant Program.

Resolution No. 13-48 – Approving a Financially Sound Determination for the Charter School Facilities Program for Final Apportionment for Voices College Bound located in Santa Clara County.

Ms. Johantgen advised Voices College Bound (Voices) has requested funding for new construction of a school facility on an existing site to eventually accommodate 435 students (grades K-8) of which 78% are expected to qualify for free and reduced lunch. The site for the approximate 20,000 square foot one-story facility will be located at the existing G. W. Hellyer Elementary site. Voices expects to complete the facility in time for occupancy by the start of the 2014-15 school year. Ms. Johantgen highlighted the indicators in the staff summary that support staff's recommendation of financial soundness.

It was moved, seconded, and passed unanimously to adopt Resolution No. 13-48, approving a Financially Sound Determination for purposes of the Charter School Facilities Program for a Final Apportionment for Voices College Bound, located in Santa Clara County.

Resolution No. 13-49 – Authorizing the Issuance of Bonds in an Amount Not to Exceed \$7,000,000 to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities located in Los Angeles County.

Ms. Johantgen advised that MPM Sherman Way LLC, is requesting conduit bond financing of \$7 million to finance the acquisition, improvement and equipping of the land and facilities located at 18238 Sherman Way, Reseda, to be owned by MPM Sherman Way LLC and then leased to Magnolia Science Academy-1, Reseda (MERF), for use and occupancy by the charter school.

The bonds are expected to price and close in December 2013. The bond rating is anticipated to be a BB+ by Standard and Poor's. The bonds will be sold through a public offering versus a private placement. Ms. Johantgen highlighted that the bond sale restrictions are in place for this financing for bonds that are below investment grade. She added that this is the first bond financing for Magnolia.

Ms. Johantgen stated that representatives for bond counsel, Orrick, Herrington & Sutcliffe LLP, and the underwriter, RBC Capital Markets, LLC, were present to participate and answer questions regarding the financing and school organization.

Mr. Bill Wildman, RBC Capital Markets, spoke regarding a recent meeting with Standard & Poor's pertaining to a technical issue related to the movement of funds between the various schools in the organization. The rating agency thought this could be problematic unless all involved are compliance with all covenants. As a result, the school made changes necessary to obtain the BB+ rating and financing. Mr. Wildman informed the members regarding the bond financing, bond rating and its structure as it relates to this transaction.

Mr. Eugene Clark-Herrera, Orrick-Herrington and Sutcliff, spoke regarding the sale provisions and sale restriction policy from a handout that was provided. Lastly, he encouraged the Authority to seek additional Federal Credit Enhancement Grant funding. He added that the facility financing community viewed this year's program favorably and finds the program valuable.

It was moved, seconded, and passed unanimously to adopt Resolution No. 13-49, Authorizing the Issuance of Bonds in an Amount Not to Exceed \$7,000,000 to finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, and equipping of educational facilities located in Los Angeles County.

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

Respectfully submitted,

Katrina Johantgen  
Executive Director