**CALIFORNIA SCHOOL FINANCE AUTHORITY**

**Meeting of the Board**

**Wednesday, June 14, 2017**
**10:00 a.m.**

**915 Capitol Mall, Room 587**
**Sacramento, California 95814**

Deputy State Treasurer Vincent P. Brown, serving as Chair, called the meeting to order.

<u>Roll Call</u>

<u>Members Present</u>: Vincent P. Brown, designee for John Chiang, State Treasurer
Eraina Ortega, designee for Michael Cohen, Director of Finance
Juan Mireles, designee for Tom Torlakson, Superintendent of Public Instruction

<u>Staff Present</u>: Katrina Johantgen, Executive Director
Dana Brazelton, Manager
Laura Martinez, Manager
Robert Biegler, Program Analyst
Ian Davis, Program Analyst
Jodie Jones, Program Analyst
Kristen Schunk, Program Analyst
Anne Osborne, Program Analyst

Katrina Johantgen welcomed those on the phone line to the Board meeting, after which Chairperson Brown declared a quorum present after roll call.

<u>*Item 2: Approval of Minutes*</u>: The minutes from the May 9, 2017 Authority Board meeting were presented to the Board and approved unanimously by roll call.

<u>*Item 3: Executive Director's Report*</u>

Ms. Johantgen presented a report on the status of all Authority programs for the Boards review.

<u>*Item 4: Resolution No. 17-17 Adoption of Proposed Regulations for the State Charter School Facilities Incentive Grants Program (CFDA#84.282D) and Authorizing the Regular Rulemaking Process*</u>

Ms. Johantgen introduced the item to the Board, explaining that the Authority will file the Regulations with the Office of Administrative Law (OAL) on June 20, 2017, and expects them to go into effect by December.

Ms. Johantgen discussed a question that was raised regarding proposed changes to the student performance preference point section. Previously, the Authority used the state's Academic Performance Index (API) to assign preference points in this category. Since California's implementation of its Smarter Balance Assessment System (SBAS) is now in its second year, the Authority will able to award points using SBAS for school choice and student performance for Funding Round 13. The question asked about the methodology used to select the proficiency targets used to award preference points. Ms. Johantgen explained that staff ran past applicants' proficiency percentages as a proxy to test the percentages set forth in this regulation change. Mr. Mireles suggested that it would be good to revisit the percentages in a year, so they could see if it is still working as intended, and Chairperson Brown agreed.

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

*Item 5: Resolution No. 17-18 – Approval of Revolving Loan Fund Program Recommendations and Amounts*

Ms. Johantgen introduced the Revolving Loan Fund Program loan recommendation item to the Board. She noted that the Board may see one more awardee, as one school is appealing its eligibility determination. Ms. Johantgen asked if there were any questions regarding the schools, and added that Priority Two schools had a Good Standing Letter (GSL) request sent out to their authorizers, and the schools before the board were in good standing and in compliance with their charter terms.

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

*Item 6: Resolution No. 17-19 – Resolution Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed $25,000,0000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Santa Clara County, California for Escuela Popular Del Pueblo*

Ms. Johantgen introduced the item, explaining that it is related to the financing approved in May 2017 for Escuela Popular Del Pueblo, an unrated bond financing. Ms. Johantgen reported that the financing team contacted the Authority after the May meeting and said a registered, accredited advisory firm is interested in buying the bonds, but with a modification to the sales restrictions adopted by the board at the May meeting. The modification could not be granted at the staff level, therefore the item was coming before the board. Escuela wants the flexibility to either sell the bonds into the market through a limited public offering or to the registered investment advisor, whichever sales method provides the lowest overall borrowing cost.

The board asked if this exception would impact the States position and liability as the issuer. Mr. Paxson, legal counsel, confirmed that if the bonds sold in the market through the limited public offering, the more stringent restrictions, with $250,000 minimum denominations, would be in place. He explained that if they did not sell into the market, they would sell the bonds to the firm at $100,000 minimum denominations.

Ms. Ortega confirmed with the financing team that last month's resolution and the one being discussed are the same except for added language for the additional options, and that, while it is not explicitly in the resolution, the options will not be exercised if they go with this new route. Ms. Ortega said that for situations like this in the future, she is less concerned with the multiple options that can occur after the Board votes to approve, and more concerned that those options should be clearly stated in staff reports and resolutions at the initial resolution. Ms. Johantgen concurred and said staff was not aware of the interest from the investment advisor in May, otherwise, the two sales options would have been presented concurrently.

Chairperson Brown agreed with Ms. Ortega, and said that situations like this should be brought up as policy decisions. He expressed a desire to have bond issuance guidelines revisited as a policy matter at a later meeting. Staff said they would bring a policy recommendation to a meeting this fall.

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

*Item 7: Resolution No. 17-20 – Resolution Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed $50,000,000 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 KIPP LA Schools*

Ms. Johantgen introduced the item and invited the financing team to speak to the Board; Marcia Aaron, Chief Executive Officer, and Dennis Chao, Associate Director of Finance from KIPP LA Schools (KIPP), Brian Colon from Robert W. Baird & Co. Incorporated, and Marc Bauer from Orrick, Herrington & Sutcliffe LLP. Ms. Johantgen explained that this is the third financing for KIPP, providing land acquisition and new construction financing for three schools with costs not to exceed $50 million.

The financing team told the Board that KIPP received a BBB-rating from Standard and Poor's. Mr. Colon explained how investment grade bonds are rare among charter schools, and that it provides access to new investors for borrowers such as KIPP.

Mr. Mireles asked the financing team how the land and construction costs were determined. They explained that the land costs are based on market price, which are getting more expensive in Los Angeles. Additionally, KIPP employs a full time real-estate director for construction purposes that works with Pacific Charter School Development, a nonprofit that helps to develop budgets. The planning is at different stages, but the financing team is comfortable with their estimates. Lastly, they assured the Board that KIPP has the financial strength to continue the projects if costs go over their estimates.

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

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

Respectfully submitted,

Katrina Johantgen