CALIFORNIA SCHOOL FINANCE AUTHORITY

Meeting of the Board

Monday, November 20, 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
Robert Biegler, 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 November 8, 2017 Authority Board meeting were presented to the Board and approved unanimously by roll call.

Item 3: Resolution No. 17-31 - Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed $40,000,000 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 Bright Star Education Group and Bright Star Schools

Ms. Johantgen introduced the item and called up members of the financing team: Saman Bravo-Karimi, Chief Business Officer, Bright Star Schools; John Kim, Managing Director, Stifel, Nicolaus & Company, Incorporated, and; Marc Bauer, Senior Associate, Orrick, Herrington & Sutcliffe, LLP.

Ms. Johantgen requested that Mr. Kim explain to the Board why this extraordinary meeting was called. Mr. Kim explained that various versions of the tax reform bill would eliminate the issuance of tax-exempt bonds for borrowers providing public benefits, including 501(c)(3) charter school borrowers. Many nonprofit organizations are expediting financing plans to close before December 31, 2017, as the tax reforms would be effective January 1, 2018.

Mr. Brown asked the financing team what would happen if charter financings became taxable. Mr. Kim explained that the small taxable portions currently in financings tend to be sold within five-year maturity. Taxable financings are usually more styled for high-end credits and buyers who like to buy into large financings; charter financings tend to be small. Additionally, there are fewer buyers for lower and unrated financings, so it will take time for taxable buyers to be educated on charter financings. Rates would also be higher, so terms would not be favorable to charter schools. Ms. Johantgen asked Mr. Kim how institutional buyers interact with these financings. He explained that they often will buy the tax exempt portion, then buy the smaller taxable portion separately or blend it with other taxable credits.

Ms. Johantgen confirmed the Board had no further questions regarding the tax reform bills before moving on to the financing. She explained that this financing began over a year ago, and that staff recommends its approval. Mr. Kim added that the original financing was only for Valor Academy, but that it has since added an athletic field and a second project to build a new facility at Stella Charter Middle. The team anticipates the deal will price and close before December 29, 2017.

Mr. Bravo-Karimi and the financing team followed a prepared presentation regarding the deal, discussing the history of the Bright Star organization and the schools included in the financing, as well as their awards, academic results, and financial strengths. The financing team discussed sales restrictions.

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

The financing team confirmed that the Tax Equity and Fiscal Responsibility Act (TEFRA) hearing is scheduled for December 5th.

Item 4: Resolution No. 17-32 - Resolution Authorizing the Issuance of Educational Facility Revenue Bonds in an Amount Not to Exceed $32,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Riverside County, California for River Springs Charter School, Inc.

Ms. Johantgen invited the financing team up to talk with the Board: Vivian Price, Asst. Superintendent, Debbie Daniels, former Asst. Superintendent, River Springs Charter School; LLC; Guillermo Garcia, Director, Stifel, Nicolaus & Company, Incorporated, and; Kerrigan Bennet, Shareholder, Stradling Yocca Carlson & Rauth.

The financing team discussed the school's history, school enrollment, growth expectations, preferred teaching methods, and provided a listing of their test scores compared to other schools. Mr. Garcia assured the Board that this financing is simpler compared to others the Board have seen previously, due to a lack of an Obligated Group or complex leases, as well as the school not using SB 740 money. He discussed the schools themselves and a breakdown of their financial strength. The financing will be used to acquire two facilities as well as a third construction project. He added that Standard and Poor's (S&P) had given them a below-investment rating, but hopes that a recent meeting with Moody's will result in a better rating from them. He confirmed for the Board that the financing will go forward with or without an investment-grade rating, with sales restrictions in place, based on the ultimate rating achieved.

After Ms. Johantgen confirmed that staff recommended approval, 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 5: Resolution No. 17-33 - Resolution Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed $45,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in San Diego County, California for Classical Academy High School, Inc. and The Classical Academy, Incorporated

Ms. Johantgen introduced the item and welcomed the financing team to the Board: John Snider, Managing Director, RBC Capital Markets, Cameron Curry, Executive Director, Classical Academies; Sarah Kollman, Partner, Young Minney & Corr, and; Kerrigan Bennet, Shareholder, Stradling Yocca Carlson & Rauth.

Mr. Curry began by sharing with the Board the history of the two schools involved with the financing and the organization as a whole. The financing team explained that the project has two components: a refinancing of Authority-issued bonds from 2013, and a purchase of the elementary school site. The first part of the financing is directly related to the ongoing tax-reform in Congress, which would remove options for advance debt refinancing, so both financing components are necessary to achieve cost savings. As their previous financing was rated at AA+, it is expected that an investment rating will be issued before pricing. The bonds are set to price and close before the end of December 2017.

The Board asked the financing team if there were any penalty provisions for early refunding. The financing team confirmed there are no penalties, simply that the old bonds must be escrowed. Both tax reform bills in Congress would prohibit this sort of refinancing action in the future. Ms. Johantgen confirmed for the Board that staff recommended approval.

Ms. Ortega made a motion to approve and Mr. Schweizer 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