

MINUTES

**CALIFORNIA SCHOOL FINANCE AUTHORITY
("CSFA" OR "AUTHORITY")
915 Capitol Mall, Room 587
Sacramento, California 95814
August 28, 2019 - 2:30 p.m.**

Public Participation
Call-In Number: (877) 810-9415 and Participant Code: 6535126

OPEN SESSION

Deputy State Treasurer Audrey Noda, served as Chair, called the meeting to order at 2:34 P.M.

Item #1

Roll Call

Members Present: Audrey Noda, designee for Fiona Ma, CPA, California State Treasurer
Nick Schweizer, designee for Tony Thurmond, Superintendent of Public Instruction
Gayle Miller, designee for Keely Martin Bosler, Director of Finance

Staff Present: Thomas Dear, Staff Services Manager II
Ravinder Kapoor, Legal Counsel
Anne Osborne, Program Analyst
Ian Davis, Program Analyst
Kristen Schunk, Program Analyst
Jose Franco, Program Analyst
Jodie Jones, Program Analyst
Robert Biegler, Program Analyst
Robert Rodriguez, Office Technician

Thomas Dear welcomed those on the phone line to the Board meeting.

Item #2 **Approval of the July 18, 2019 Board Minutes (Action Item)**

Deputy Noda introduced Item #2 Approval of the July 18, 2019 Board Minutes.

Authority Action

Motion to approve the minutes from the July 18, 2019 meeting.

MOTION: Member Miller

SECOND: Member Schweizer

AYES: Members: Schweizer, Miller, Noda

NOES: NONE

ABSTAIN: NONE

RECUSE: NONE

MOTION APPROVED.

Charter School Facilities Program

Mr. Dear reported that the Proposition 1D and Proposition 51 funding rounds are still active. Of the 71 projects between the two funding rounds, 13 have been converted to final apportionment leaving 58 projects working towards final apportionment. There have been no recessions for either funding round.

Conduit Bond and Note Program

Mr. Dear reported that being presented to the board will be two transactions totaling a not to exceed amount of \$8,000,000, it is two transactions for \$4,000,000 each. Granada Hills Charter School have a \$50,000,000 bond that was approved in April 2019 that is closing in September. Four other deals are expected to be presented at September 2019 meeting totaling \$110,000,000.

Credit Enhancement Program

Mr. Dear reported on the Project Acceleration Reported and Credit Enhancement Alternatives (PANACEA) Program. The Program provides interim financing on a short-term basis to Charter School Facilities Program (CSFP) awardees to accelerate completion of key pre-construction milestones that must be met to receive their project funding. These funds also will be used to enhance bank loans and other indebtedness issued through the Authority. The Authority is still working to put together the first transaction. The Authority working on this transaction for six months. There is no update to the \$20,000,000 credit enhancement charter school facility grant application submitted last month. The grant would fund a new program, Charter Access to Bank Loan Enhancement ("Charter ABLE") and we anticipate hearing something in the next three weeks.

State Charter School Facilities Incentive Grants Program (CFDA 84.282D)

Mr. Dear reported that the staff will be presenting the results from the 2019 State Charter School Facilities Incentive Grant funding round, which opened on June 4th, 2019 and closed on July 19th. This will be funding round 15. So far, the first 14 funding rounds of this program has awarded nearly \$150,000,000, towards 431 Charter Schools serving 152,000 students. There is an update on the \$10,000,000 State Charter Facilities Incentive Grant application submitted last month; the Authority received a call from the U.S. Department of Education to clarify some questions on our application and to possibly see if we were open to servicing a larger grant amount that we applied for. The Authority immediately informed the U.S. Department of Education to express its excitement and willingness to administer a larger grant.

Charter School Facility Grant Program (SB 740)

Mr. Dear reported that the Initial Review will begin early in September, once True Up for the 2018-19 funding round was completed. The Authority also has a Regular Rulemaking Packet that was filed with the Office of Administrative Law and the Authority anticipates an approval in early October.

Charter School Revolving Loan Fund

Mr. Dear reported that staff will be presenting Priority 2 schools to the board. This program is designed provide funding to new charter schools with a maximum of \$250,000. Recently, funding changes were introduced to minimize losses due to closure of some charter schools. Instead of a single disbursement, the Authority is delivering the funds in three disbursements and that has helped to stave off some losses. We put in these precautions because there have

been school closures which caused some defaults. We have four collections efforts that we want to bring to the board today. (1) Beacon Classical Academy National City: The Authority is waiting to receive \$123,000 of a \$158,000 debt that will be sent to the Authority. The school is having challenges accessing the funds – a password is the issue and cannot be reset, this will be resolved soon. (2) Taft T. Newman Leadership Academy, located in San Bernardino County: The school closed in January 2019. The Authority received \$31,000 of a \$108,000 debt from the San Bernardino County Office of Education. There are no other funds available. Staff will begin the write-off process of approximately \$76,000 for this loan. (3) Community Preparatory Academy: The school closed in June 2019. It has an outstanding loan balance of \$62,500 and is due its 2018-19 True Up funds from SB 740. The Authority plans to intercept the SB 740 funds to pay its loan first and send the balance of the SB 740 funds to the school- no loss. (4) A3 Schools: On May 17, 2019, several employees were indicted by the San Diego District Attorney's Office for what amounts to fraud. The charters of the schools (located throughout California and all online schools) have been revoked – Eight of nine schools participated in the RFL Program. Staff is working with Legal to collect outstanding funds through schools' state apportionments and with the San Diego Attorney General to claim these funds. Approximately \$1,300,000 is at risk from all defaulted A3 schools.

Member Miller asked Mr. Dear if the Authority had an aggregate on how successful the Authority is in recuperating losses. Mr. Dear reported that the Authority did not have an aggregate but reported that the Authority is successful in recuperating funds.

Member Schweizer wanted to know if the Authority was working with the California Department of Education regarding the A3 schools, and Mr. Dear confirmed that the Authority was working with them.

Item #4 Resolution No. 19-23 – Resolution Of The California School Finance Authority Authorizing A Loan To The Authority In An Amount Not To Exceed \$4,000,000, The Issuance By The Authority Of A Promissory Note Evidencing The Obligations Of The Authority In Connection With Such Loan, And A Loan From The Authority To Encore Education Corporation, To Finance Working Capital For Encore Education Corporation Relating To Encore High School For The Arts – Riverside, In Riverside County, Providing The Terms And Conditions For Such Loans And Promissory Note And Other Matters Relating Thereto, And Authorizing The Execution Of Certain Documents In Connection Therewith

(Action Item)

Robert Biegler, Program Analyst presented. Mr. Biegler reported that Item #4 was on the Authority's July Agenda as one loan for Encore Riverside and Encore Hesperia. It was pulled from that Agenda and has come back as a \$4,000,000 loan for the Riverside campus and a note of \$4,000,000 for the Hesperia campus. Bonds for the Hesperia campus were issued in 2016 and part of the contingency was a sign off from current bondholders. After conversing with bondholders, it was decided that a Revenue Anticipation Note ("RAN") would be preferred and waiver of the intercept.

Mr. Biegler introduced Karl Yoder, Financial Consultant for Delta Managed Solutions. Mr. Yoder reported that Delta Managed Solutions has worked with the school for about 10 years in capacity as back office services provider and has a lot of experience with Encore Education Corporation.

Mr. Yoder reported that Encore has been in a situation where due to low cash reserves they have resorted to selling of their receivables for the last couple of years, which has allowed the school to maintain its cash flow and continue operations but reported that it is an expensive form of financing. By structuring a loan with the State Controller Intercept, it lowers the borrowing costs to the school. Originally, the loan was going to be \$8,000,000, but to do this, consent was needed from the 2016 bondholders. The bondholders were amenable to purchasing RANs for just the school they owned the associated bonds. Mr. Yoder reported that the Riverside transaction is subject to the State Controller Intercept and has 140% coverage while the Hesperia transaction is going to go through the County Level Intercept and will not be intercepted at the State level because the bondholders prefer to keep the State Controller Intercept on the bonds.

Ms. Miller asked Mr. Yoder to clarify State Controller Office Intercept.

Mr. Yoder stated that the State Controller Office takes the funds that the school has earned in state aid apportionment and they are intercepting those funds. Which secures the transaction and lowers the rate by offering more protection for the investors since they are getting their funds from the State instead of the school, which strengthens the credit of the financing.

Guillermo Garcia, Underwriter from Stifel Nicolaus, introduced himself and explained that the transaction would have been a loan from Charter Asset Management for both campuses that incorporated a State Controller Intercept. The bondholders for the 2016 bonds were not comfortable to giving consent to have another intercept at the same level taking money from the Hesperia campus that would otherwise go towards paying their bonds.

Authority Action

Authorizing the issuance of a promissory note in an amount not to exceed \$4,000,000.

MOTION: Member Schweizer

SECOND: Member Miller

AYES: Members: Schweizer, Noda
NOES: NONE
ABSTAIN: Miller
RECUSE: NONE

MOTION APPROVED.

Item #5 Resolution No. 19-24 – Resolution Of The California School Finance Authority Authorizing The Issuance Of Revenue Anticipation Notes In An Amount Not To Exceed \$4,000,000 To Finance Working Capital For Encore Education Corporation Relating To Encore Jr./Sr. High School For The Performing And Visual Arts, In San Bernardino County (Action Item)

Robert Biegler, Program Analyst presented. Mr. Biegler introduced Guillermo Garcia, Underwriter from Stifel Nicolaus. Mr. Garcia reported that RANs will be sold to a subset of the 2016 bondholders and they have been working with them to structure the RANs that works with the 2016 bonds in a fashion that all parties are comfortable with.

Authority Action

Authorizing the issuance of Revenue Anticipation Notes in an amount not to exceed \$4,000,000.

MOTION: Member Schweizer

SECOND: Member Miller

AYES: Members: Schweizer, Miller, Noda
NOES: NONE
ABSTAIN: NONE
RECUSE: NONE

MOTION APPROVED.

Item #6 Resolution No. 19-25 – Approving Awards and Authorizing the Disbursement of Funds under the Fifteenth Funding Round of the State Charter School Facilities Incentive Grants Program (CFDA #84.282D) for the Schools listed in Attachment A
(Action Item)

Jose Franco and Jodie Jones, Program Analysts, presented. The Authority is awarding \$12,750,000 in the fifteenth funding round. The Authority plans to award 25 Charter schools, with the 25th Charter school receiving a partial award. The Authority has also funded 25 alternates given that it is the last funding round. The Authority wants to make sure that if any funds become available that there would be enough alternates to fund and disburse those schools without having to come back to the board. There are 101 applications, which was 30 applications fewer from last year. The Authority also had a public outreach campaign where webinars were held for potential applicants. The Authority has reviewed submitted lease agreements for the 2019-20 year but there are still some outstanding lease agreements and facility use agreements that the Authority expects to receive before funds are disbursed. Staff has reviewed the preference points for each applicant, which is the ranking system for the Incentive Grants Program and has a maximum of 150 points available. The program is structured as a three year grant, with \$250,000 for any Prop 39 rent or debt service grant per year, for three years with a maximum of \$500,000 for three years for any renovation, construction or purchase project.

Ms. Jones reported that the majority applications are requesting funds for Prop 39 and base rent. 31.7% of the applicants requested funds for Prop 39 reimbursement and 44.6% for rent cost. The other costs went into debt service, renovation, purchase, acquisition and construction costs. The Authority also focused on where the applicants were authorized: 72 of the 101 applicants were authorized by school districts, 21 by county, and the remaining eight by the State. The Authority uses local codes that are provided by the National Center for Education Statistics to analyze and assign preference points and that the Authority had 18 total ineligible applicants.

Mr. Franco stated that there are six categories for preference points. 96% of the awardees received points under overcrowding, 28% for student performance, 92% for school choice, 96% for non-profit status, 52% for first time awardees and 44% were in the 81-90% range for Free and Reduced Price Meals. In terms of the awards breakdown, 64% of the awardees received grants for Prop 39 costs, 20% for base rent, 12% for mortgage, 4% for renovations and there were no awards for purchase, acquisition and construction.

Authority Action

Approval of Awards and Authorizing the Disbursement of Funds under the Fifteenth Funding Round of the State Charter School Facilities Incentive Grants Program

Motion to approve

MOTION: Member Miller

SECOND: Member Schweizer

AYES: Members: Schweizer, Miller, Noda
NOES: NONE
ABSTAIN: NONE
RECUSE: NONE

MOTION APPROVED.

Item #7 Resolution No. 19-26 - Approval of Revolving Loan Fund Program Recommendations and Amounts for the Schools listed in Attachment B
(Action Item)

Kristen Schunk, Staff Analyst, presented. The Authority received 30 timely applications by the February deadline, with requests totaling \$7,350,000 and approximately \$8,000,000 available for this year. Out of the 30 applications, there were two tiers of applications. 23 schools were opening in 2018-19 which are classified as priority one schools. Seven schools that have already opened are classified as priority two schools. In June 2019, the board met and approved 19 priority one schools totaling \$4,650,000. Staff is working to process loan agreements and initial disbursements to those schools. Staff recommended six priority two loans totaling \$800,000 which will bring a close to the 2018-19 funding round.

Authority Action

Resolution No. 19-26 - Approval of Revolving Loan Fund Program Recommendations and Amounts for the Schools

Motion to approve

MOTION: Member Miller

SECOND: Member Schweizer

AYES: Members: Schweizer, Miller, Noda
NOES: NONE
ABSTAIN: NONE
RECUSE: NONE

MOTION APPROVED.

Item #8 Consideration of an Appeal on behalf of ICEF Inglewood Middle Charter Academy located in Los Angeles County Related to Ineligibility for the Charter School Facility Grant Program (Action Item)
(Action Item)

Ian Davis, Program Analyst, presented. Mr. Davis reported that the Authority received two notifications from Inglewood Unified School District, which found ICEF Inglewood Middle Charter not in compliance in terms with its charter and therefore not in good standing with Inglewood Unified, which is the School's chartering authorizer. As a result of the letters, ICEF Inglewood Middle Charter was found ineligible for 2018-19 SB740 funds. Additionally ICEF Inglewood

Middle Charter closed its doors on June 30, 2019. Mr. Davis introduced Parker Hudnot, CEO of ICEF Public Schools.

Mr. Hudnot reported that the regulations that require a charting authority to certify good standing are clear and in this case, Inglewood Unified refused to do that. Mr. Hudnot also stated that the regulations are a bit unclear regarding what good standing means. Mr. Hudnot reported that they did not receive notification from the district regarding any deficiencies and the first time they were aware was when the Authority notified them that they were ineligible. When they inquired with Inglewood Unified, they were told of “inadequate academic performance” as the reason for denial.

Mr. Davis reported that since 2016, the Authority has had the good standing requirement in the regulations and that it is part of several other programs as well. For eligibility, SB740 requires that the school must maintain good standing with its chartering authorizer and that the school remain within the terms of its charter. The Authority reached out to the Authorizer to verify good standing and in this case received two letters, one in February and another in July, both identifying ICEF Inglewood was not in good standing with Inglewood Unified.

Authority Action

Approval of Staff recommendation that for the 2018-19 Program funding round, ICEF Inglewood remain ineligible for the 2018-19 Program Award. No motion needed.

No Motion needed.

Item #9 Consideration of an Appeal on behalf of Children of Promise Preparatory Academy located in Los Angeles County Related to Ineligibility for the Charter School Facility Grant Program

(Action Item)

Ian Davis, Program Analyst, presented. Mr. Davis reported that this appeal is similar to the previous appeal in that it also had two certification letters from Inglewood Unified finding the school was not in compliance with the terms of its charter and therefore not in good standing with Inglewood Unified, which is the schools chartering Authorizer. Because of the letters, Children of Promise Preparatory Academy (COPPA) was found ineligible to the remainder of their 2018-19 SB740 funding award as well as their 2019-20 SB740 funds.

Mr. Davis stated that at the Authority’s July 18, 2019 board meeting, the Authority proposed changes to its regulations regarding good standing and one of the changes allows charter schools to become eligible for grant funds from the moment in compliance with their chartering authorizer, if the original determination was that they are not in good standing. The regulations are to be approved by January 2020. Staff recommend for the current 2018-19 funding round and under the current regulations, the school be found ineligible for the remainder of their 2018-19 funds but for the 2019-20 program eligibility be held over until January 2020 pending new regulations.

Authority Action

Approval of Staff recommendation that for the 2018-19 Program funding round, COPPA remain ineligible for the remainder of its 2018-19 Program Award. Staff further recommended any appeal by COPPA to the Board regarding the school’s 2019-20 Program eligibility be held over until January 2020 when the amendments to the regulations are anticipated to go in to effect.

Motion to approve

MOTION: Member Schweizer

SECOND: Member Noda

AYES: Members: Schweizer, Noda

NOES: NONE

ABSTAIN: NONE

RECUSE: NONE

MOTION APPROVED.

Items #10

Public Comment, Adjournment

Deputy Noda asked for public comment. Hearing none and with no additional business, the meeting adjourned.