

MINUTES

**CALIFORNIA SCHOOL FINANCE AUTHORITY
915 Capitol Mall, Conference Room 110 (Large)
Sacramento, California 95814**

**300 S. Spring St, Suite 8500
(Large Conference Room)
Los Angeles, CA 90013**

November 23, 2020 - 10:30 a.m.

Public Participation

Call-In Number: (877) 810-9415 – Participant Code: 6535126

In March 2020, the Governor declared a State of Emergency and enacted Executive Order N-29-20. In an effort to slow the rate at which COVID-19 is spreading, the Executive Order waived certain provisions of the Bagley-Keene Act and Brown Act, which required the physical presence of members, personnel of the board, or the public at meetings of state and local bodies. Pursuant to the order, the meeting of the California School Finance Authority (CSFA or Authority) Board Meeting was held telephonically, and the meeting was noticed accordingly.

OPEN SESSION

Chief of Staff Genevieve Jopanda, called the meeting to order at 10:30 a.m.

Item #1: Roll Call

Members Present: Genevieve Jopanda, Chief of Staff (Sacramento Office)
Juan Mireles, designee for Tony Thurmond, Superintendent of Public Instruction (Via Microsoft Teams)
Gayle Miller, designee for Keely Martin Bosler, Director of Finance (Via Microsoft Teams)

Staff Present: Audrey Noda, Deputy Treasurer (LA Office)
Katrina Johantgen, Executive Director (LA Office)
Ravinder Kapoor, Legal Counsel (Sacramento Office)
Thomas, Dear, Staff Service Manager II (Sacramento Office)
Shannon McEuen, Staff Service Manager I (Sacramento Office)
Robert Rodriguez, Office Technician (Sacramento Office)

Genevieve Jopanda welcomed those on the phone line to the California School Finance Authority Board (Board) meeting. Katrina Johantgen read the prompt regarding the teleconference line and public participation.

Item #2: Resolution No. 20 – 41 – Authorizing the Issuance of 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 Los Angeles County for use by KIPP Promesa Prep & KIPP Pueblo Unido (Action Item)

Executive Director Katrina Johantgen presented Resolution 20-41. She noted that this financing will fund two projects for KIPP SoCal Schools: KIPP Promesa Prep and KIPP Pueblo Unido, noting that both charters are authorized by the Los Angeles Unified School District, and serve students throughout Los Angeles County. Executive Director Johantgen introduced the team from KIPP SoCal (KIPP), starting with Marcia Aaron, the Founder and CEO of KIPP So Cal Schools; Kyle Salyer, the Chief Financial Officer; and Dennis Chao, the Director of Finance. Marc Bauer, partner at Orrick, Herrington & Sutcliffe, is serving as lead bond counsel. John Buck is the president of Buck Financial Advisors, and is the advisor to the borrower. From the underwriter, Robert W. Baird & Co., Brian Colon was dialed into the meeting.

Executive Director Johantgen noted this item was on the agenda for the November 12, 2020 board meeting, however there was a disclosure made a few days prior to the board meeting, so the Authority chose to pull the item for further review and scheduled this meeting one week later. The disclosure issues relate to KIPP So Cal being named as a party in a lawsuit against the City of Cudahy, the city in which the Pueblo Unido facility is located.

Mr. Salyer spoke to the issue, providing a high level summary for the board. KIPP intends to construct a facility for KIPP Pueblo Unido in the City of Cudahy, with the facility supporting the entire school, grades K-8. When completed, it would consolidate schools across multiple campuses into one single campus. The land purchased has zoning designated by right for public school use, so the only entitlement that was required for the project was to go through a development review permit with the City of Cudahy, which is a ministerial process, according to their municipal code. As such, the city attorney and city council determined that the project was exempt from a CEQA review. KIPP received the approval of the development review permit on September 15, 2020 by vote of the city council, and proceeded with plans to submit their building permit approval. On November 3, 2020, there were claims filed against the City of Cudahy with KIPP being a named party to those claims. There were two claims made by the petitioners: 1) a due process claim that the petitioners were unfairly prejudiced in terms of accessing the city council meeting, and 2) that the city incorrectly determined that the project was exempt from a CEQA review. KIPP is currently working with their attorneys, along with the attorneys for the City of Cudahy, and will be proceeding with litigation over the coming months.

Mr. Buck provided additional context, presenting details of how this litigation changed the structure of the financing. He also provided insight into KIPP's many ongoing projects and how the financing team coordinates well ahead of time to meet KIPP's facility needs. He noted that the bond proceeds associated with the Pueblo Unido project will be escrowed until the release provisions are or are not achieved. If the City prevails and the project can move forward, the bond proceeds will be released from escrow. If the City does not prevail, the bond proceeds associated with KIPP Pueblo Unido will be redeemed and bond investors will receive the funds that were initially invested.

Executive Director Johantgen confirmed KIPP had achieved a BBB rating, with a stable outlook, which puts them in a very small group of charters that receive an investment grade rating.

Mr. Bauer provided some additional financial details, confirming this is the fifth bond financing for KIPP issued through CSFA since 2014. He also provided an overview of security provisions and related schools included in the bond structure.

Mr. Salyer shared details of the construction sites and how the new campus would be enhanced. He noted that they anticipate having the appropriate permits by the time these bonds close. He added that they are currently exceeding their financial projections and provided KIPP SoCal financial projections for the next few years.

Ms. Aaron presented information about the multiple KIPP campuses currently in place, including their new Montebello location. She also provided enrollment data and information on KIPP's Board structure. She spoke to their efforts to deal with the pandemic, and how they've updated their processes to best meet student needs during this time.

Mr. Bauer gave an overview of the release provisions and how the extraordinary redemption would work. He noted that once there is a release of the proceeds, when the litigation is finalized in favor of KIPP, or a settlement, whatever would allow the project to move forward, the money would be released from the escrow and be used to pay the construction amounts. If this doesn't happen by June 2023, that money would be used to redeem bonds on a pro rata basis across the pending maturities at the time.

Board Member Mireles had a question regarding the length of time that the proceeds would be in escrow, and if interest would be collected, and by which entity. He was curious as to the length of litigation, and asked why they opted to proceed now, rather than wait until the litigation is settled.

Mr. Salyer offered insight into the litigation timeline, noting they anticipated the initial trial, if it goes the full length, would be 8-10 months, noting there was a possibility the petitioners could appeal the decision, which would add an additional 8-10 months to the process.

Mr. Buck gave insight into KIPP's project schedule, and how based on his recommendation, KIPP is interested in securing a historically low fixed interest rate now, and mitigate interest rate risk in the future. By not locking in an interest rate now, KIPP faces considerable interest rate risk, given the construction timeline. Rather than have KIPP deal with the process of having to arrange additional short term financing solutions on top of the line of credit, they opted to stick to their original plan to proceed with long-term, fixed rate debt.

Ms. Aaron added additional insight into the decision, noting their board anticipated changes in the economy over the next year, which added to their decision to move forward now. Board Member Mireles had a follow up question, asking what would occur if they can't obtain the construction site.

Mr. Bauer responded, noting the bond proceeds that are allocated to this Pueblo Unido project would be used to redeem these bonds.

Board Member Miller had a follow up question regarding why the board would fund it now, given there is a chance they would not get the construction site or lose the litigation.

Mr. Buck noted that they would have access to the funds the day after the litigation is complete, which could happen at any time. He noted if they were not able to do so by June 2023, the money would be used to redeem the bond.

Board Member Miller asked what the downside was for the state if they didn't win litigation.

Mr. Buck and Executive Director Johantgen confirmed there was no risk to the state.

Board Member Miller expressed concern about the assumptions being made, and asked if CSFA had any sort of volume cap they'd be using in this project that could be used for someone not involved in ongoing litigation.

Executive Director Johantgen confirmed CSFA had \$4.4 billion in bonding authorization, and about \$1.5 billion outstanding, confirming there was significant of capacity and this financing would not impact that. She confirmed this financing isn't preventing anyone from receiving financing at this time. She added that non-profit 501(c)(3) borrowers providing a public benefit, like KIPP SoCal, do not need to apply for volume cap, but rather can issue tax-exempt debt by virtue of their non-profit status.

She added that the item was pulled from the previous meeting to get a better understanding of the issue, and both KIPP's and our own legal teams concur that the item is okay to proceed.

Board Member Mireles had a question regarding the disclosures, wanting to confirm the board had legal authority to proceed with financing.

Ravinder Kapoor confirmed that the Board did have legal authority.

Board Member Mireles had a follow up question regarding the proceeds in escrow account, and if they would be accruing interest.

Mr. Bauer confirmed under the bond document, the proceeds in the project fund will be invested in eligible securities, all listed in the bond document, essentially invested in AAA-rated money market funds. He added that interest income on investments has not been a significant factor in deciding how to proceed, due to the low amount accrued.

Mr. Salyer added that they expected to generate a marginal amount of interest, but nowhere near the level that they would be paying in interest costs nor trigger the arbitrage provisions.

No public comment.

Authority Action

Motion to approve the authorizing the Issuance of 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 Los Angeles County for use by KIPP Promesa Prep & KIPP Pueblo Unido (Action Item)

MOTION: n/a

SECOND: n/a

With no motion to approve, no vote is recorded.

Item: Adjournment

There being no public comments, the Board adjourned the meeting.