

## CALIFORNIA SCHOOL FINANCE AUTHORITY

**Meeting of the Board  
Tuesday, March 23, 2010  
11:00 a.m.  
915 Capitol Mall, Room 587  
Sacramento, California 95814**

Deputy State Treasurer Patricia Wynne, serving as Chair, called the meeting to order.

### **Roll Call**

**Members Present:** Tricia Wynne, designated alternate for Bill Lockyer, State Treasurer  
Kathleen Moore, designated alternate for Jack O'Connell,  
Superintendent of Public Instruction  
Cynthia Bryant, designated alternate for Ana Matosantos, Director of  
Finance

**Staff Present:** Katrina Johantgen, Executive Director

The Chair declared a quorum present.

### **Approval of Minutes**

The minutes of the February 10, 2010 Authority meeting were adopted as submitted.

### **Executive Director's Report**

**State Charter School Facilities Incentive Grants Program:** Ms Johantgen provided an update of the rulemaking file for the new five-year grant received from the U.S. Department of Education under the State Charter School Facilities Incentive Grants Program. The proposed amendments to the regulations were adopted by the members at the December 2009 board meeting and were then distributed to all interested parties for a 45-day public comment period. Two public comments were received: the first related to the required process for verifying good standing and the second comment related to general education issues. The comments were included in the rulemaking file submitted to the Office of Administrative Law (OAL) for review.

The members were advised the 6<sup>th</sup> funding round of the grant program is scheduled to begin once OAL approval of the regulations is received. Staff is on track to distribute the email notification once the rulemaking file is approved by OAL. A significant addition for this funding round is the new "School Choice" preference point category implemented in response to new program criteria proposed by the U.S. Department of Education. Additionally, as during previous rounds, all applicants will be notified and given an opportunity to resolve any information received from their charter authorizer that may impact their eligibility to apply for or receive an award.

**Quality School Construction Bonds (QSCBs):** Ms. Johantgen provided an update on the status of the QSCBs program and the pending legislation related to SB 205 (Hancock).

Since the preliminary award of bonding authority at the October 2009 board meeting, several of the charter schools have been working with underwriters and others to move forward in the process. High Tech High is expected to come before the board in April and Vaughn is working to combine the QSCBs allocation with a QZAB (Qualified Zone Academy Bond) transaction. Both financings will have credit enhancement in the form of a letter of credit with a Federal Home Loan Bank wrap.

Other Administrative Business: Ms. Johantgen introduced Paul Gonzales to the board members. Paul is a new Staff Services Analyst and will be working in the Authority's Los Angeles office.

Working Capital Program: Ms. Johantgen provided a handout and update regarding a proposed financing idea brought to the Authority by the California Charter School Association. The state budget created a deferral of revenues for all California schools, including charter schools. As a result, the Association has been working with various entities to develop financing options for charters. They are putting together a structure that would help alleviate the financing crunch for charter schools and are looking to the Authority to act as an issuer. At this point, the Association is developing an eligible pool of borrowers and plans to present a proposed financing package to the Authority at a future board meeting.

**Resolution No. 10-02 – Approving determination of KIPP Bay Area Schools' financial soundness for purposes of an Advance Apportionment under the Charter School Facilities Program**

KIPP Bay Area Schools requested an advance apportionment of approximately \$1.6 million for the KIPP King Collegiate project. KIPP King Collegiate was initially found sound for purposes of the Charter School Facilities Program (Program) in May 2008. The State Allocation Board awarded a preliminary apportionment under the Proposition 1D funding round of \$14,649,816 for renovation and new construction in May 2008.

Since the preliminary apportionment award, KIPP King Collegiate merged with six other KIPP schools under an umbrella organization called KIPP Bay Area Schools, which is now the financial obligor for KIPP King Collegiate's renovation and new construction projects. Updated information for KIPP King Collegiate and new information for KIPP Bay Area Schools were reviewed for financial soundness. Additionally, student enrollment, retention, and performance for all seven KIPP Bay Area Schools were incorporated into the report as part of the balanced review. KIPP King Collegiate was found to be in good standing with its charter authorizer and in compliance with the terms of its charter. Although somewhat dependent on contributions, both entities have debt service coverage ratios that exceed the minimum 100% required for the Program. The school anticipates requesting conversion to final apportionment as soon as all Program requirements are fulfilled for the Office of Public School Construction and other State agencies.

Ms. Johantgen recommended the members find KIPP King Collegiate and KIPP Bay Area Schools have maintained financial soundness for purposes of the advance apportionment.

It was moved, seconded, and passed to approve Resolution No. 10-02, determining that KIPP King Collegiate and KIPP Bay Area Schools as financial obligor have maintained financial soundness for purposes of the advance apportionment of approximately \$1.6

million. This determination shall be in place for six months and assumes no financial, operational, or legal material findings within the six months.

**Resolution No. 10-06 – Approving financially sound determinations for the Charter School Facilities Program (CSFP) applications received under the Proposition 1D – 2010 Funding Round.**

Ms. Johantgen provided an update on the status of the current funding round and presented reports to the members for action related to ten applicant charter schools. A brief summary of each applicant school was provided including eligibility criteria; demographic information; projected debt service coverage and other financial factors; and student performance. Recommendations for financial soundness are generally for purposes of preliminary apportionment and not for final apportionment. Recommendations for advance apportionments would be in place for six months and assumes no financial, operational, or legal material findings within the six month period.

Staff provided additional information related to student performance for LPS – College Park, and recommended the school be found financially sound for purposes of a preliminary apportionment but not for purposes of advance or final apportionment pending annual student performance data provided by the California Department of Education, that indicates improved student performance.

Ms. Soo Zee Park, Director of Operations for Leadership Public Schools, spoke on behalf of the school and related several steps taken to improve student performance, including administrative and staff changes, new curriculum with academic rigor, and school demographics, which are resulting in improved student performance.

The members discussed the implications of student performance and its effect on recruitment and steady enrollment, which are leading indicators of a charter school's financial position. The Authority members agreed to a recommendation for approval of preliminary apportionment and that the school will need to document any student performance data that could have a material impact prior to seeking advance or final apportionment.

Ms. Johantgen advised applications for four schools were submitted by the Magnolia Educational and Research Foundation (MERF). These schools: Magnolia Science Academy, Magnolia Science Academy - San Diego, Pacific Technology School – San Juan, and Pacific Technology School – Santa Ana, were being recommended for disqualification due to late and untimely submission of required application materials.

Mr. Matt Demet, Business Manager for MERF, spoke on behalf of the Magnolia organization. He stated that all the requested documentation has been provided and that there was some confusion regarding the due dates for the additional information requests. He confirmed all requested information has been provided and requested the information be included in the review for financial soundness.

After some discussion about the required information and the iterative nature of the financial soundness evaluations, staff recommended and the board members agreed to defer decisions for these four schools until the next board meeting, allowing staff time to review the new documentation.

Ms. Johantgen recommended the members adopt Resolution No. 10-06 finding five of the ten schools presented for determination to be found financially sound for purposes of the Preliminary Apportionment and for the Advance Apportionment for a period of six months pending verification of any material changes to the information provided in the reports (excluding LPS – College Park for an Advance Apportionment pending documentation of any student performance data that could have a material impact prior to seeking advance or final apportionment). Ms. Johantgen further recommended the members find one school to not be financially sound for purposes of the Program. Four of the schools will be deferred for review at a subsequent meeting.

<b>Applicant Charter School</b>	<b>Board Action</b>
Ánimo Leadership Charter High School	Financially Sound for Preliminary and Advance Apportionment
Ánimo Pat Brown	Financially Sound for Preliminary and Advance Apportionment
Ánimo South Los Angeles	Financially Sound for Preliminary and Advance Apportionment
Bay Area Technology School	Not Financially Sound for purposes of this Program
Magnolia Science Academy	Decision deferred until subsequent meeting
Magnolia Science Academy – San Diego	Decision deferred until subsequent meeting
LPS - College Park	Financially Sound for Preliminary Apportionment
Pacific Technology School – San Juan	Decision deferred until subsequent meeting
Pacific Technology School – Santa Ana	Decision deferred until subsequent meeting
New Jerusalem School	Financially Sound for Preliminary and Advance Apportionment

It was moved, seconded, and passed to approve Resolution 10-06, approving the noted determinations related to financial soundness. The approval of determinations for purposes of financial soundness for advance apportionment are in place for six months and assumes no financial, operational, or legal material findings within this time period.

**Resolution No. 10-07 – Approving Amendments to the Regulations for the Charter School Facilities Program and Authorizing the Rulemaking Process**

Ms. Johantgen summarized proposed clarifying changes to the regulations that guide the Charter School Facilities Program (Program) and requested the changes be implemented through the Program’s emergency rulemaking authority.

In response to questions from Ms. Bryant, the members discussed the intent in identifying whether a charter school is in jeopardy or imminent danger of having its charter revoked and collection of budget and enrollment projections for the next five years or through two full years of occupancy at the program-funded facility.

Staff recommended the members adopt the resolution authorizing proposed amendments to the regulations and the initiation of the emergency rulemaking process.

It was moved, seconded, and passed to adopt Resolution No. 10-07 approving the proposed regulations, as amended by the members. The term "eminent danger" will replace the proposed term "jeopardy," in sections 10154 (d) and 10156 (g), and sections 10154 and 10158 will be renumbered. This resolution shall take effect as allowed through emergency rulemaking authority.

**Resolution No. 10-08 – Approving Program Agreements for the Charter School Facilities Program to allow Charter Schools to hold title to the project facilities**

Ms. Johantgen presented proposed amendments to the program agreements for the Charter School Facilities Program (Program) as a result of SB 592 (Romero), which allows charter schools or local governmental entities to hold title to Program-funded school facilities, in trust for the State's public school system.

The memorandum of understanding and the funding agreement have been amended to reflect the new requirements in Education Code, sections 17078.57, 17078.62, and 17078.63, relating to Program-funded facilities. As the local school district, in some cases, is no longer a party to the agreements, the MOU and funding agreement may now be entered into by the charter school (or a local governmental entity) and the State.

Ms. Johantgen recommended the members approve Resolution No. 10-08 authorizing the amended memorandum of understanding and funding agreement, in substantially these forms. If approved, the amended forms will be provided to Program awardees for execution immediately prior to disbursement of any funds for advance or final apportionment.

It was moved, seconded, and passed to adopt Resolution No. 10-08 approving the proposed, amended program agreements.

**Public Comment**

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

Respectfully submitted,

Katrina Johantgen  
Executive Director