

Texas Public Finance Authority

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Executive Director



Mailing Address:
Post Office Box 12906
Austin, Texas 78711-2906

Physical Address:
300 West 15th Street, Suite 411
Austin, Texas 78701

Telephone: (512) 463-5544
Facsimile: (512) 463-5501
www.tpfa.state.tx.us

MINUTES OF THE MEETING OF THE TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION

February 2, 2010

The Board of Directors of the Board of the Texas Public Finance Authority Charter School Finance Corporation (the "CSFC") convened in open meeting, notice duly posted pursuant to law (a copy of which notice is attached hereto as Exhibit "A") at 10:00 a.m., Tuesday, February 2, 2010, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Mr. Omar Garcia, Vice President; Mr. Bob Schulman, Member and Mr. Tom Canby, Member. Representing TPFA's staff was: Mr. Dwight Burns, Executive Director; Ms. Susan K. Durso, General Counsel, John Hernandez, Deputy Director and Paula Hatfield.

Present in their designated capacities were the following persons: Debi Jones, Morgan Keegan and Tom Sage, Vinson & Elkins.

Item 1. Call to order.

Mr. Schulman called the meeting to order at 10:12 a.m.

Item 2. Approval of minutes of the January 5, 2009 and January 7, 2010 Board meetings.

Mr. Schulman asked if there are any changes to the minutes as presented. Mr. Garcia moved to approve the minutes. Mr. Canby seconded. The motion passed unanimously.

Item 3. Consideration, discussion, and possible action to approve publication of notice under Internal Revenue Code section 147(f) for, if required, or, in the alternative, approve a Request for Financing from Cosmos Foundation to issue approximately \$90 million Education Revenue Bonds, Series 2010A, 2010B, and 2010Q, including adoption of a resolution authorizing the Texas Public Finance Authority Charter School Finance Corporation Revenue Bonds (Cosmos Foundation), a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

Mr. Burns recommended approval of this financing and introduced a representative from COSMOS, Debi Jones, Morgan Keegan, senior manager for the COSMOS Foundation. She asked for consideration of an increase in the par amount of the bonds requested and approved at the January meeting. Mr. Burns noted that the Board approve the financing for COSMOS, but COSMOS has adjusted the amount of the financing to include the debt service fund reserve amount in the par amount issued. Ms. Jones said one piece of good news is that the rating from Standard & Poors has been received. A triple B rating has been given to the transaction, which is the highest rating that charter schools currently are receiving from any rating agency. The difference in the par amount of the bonds that are being requested is due to the inclusion of the debt service reserve fund in the bond structure. In January the request was for a maximum amount of \$80 million, which would not have been sufficient to also fund the debt service reserve fund. The \$90 million request today includes leeway for varying market conditions. Given current market conditions, the anticipated size of the transaction is from \$82 million to \$84.5 million for the par amount. COSMOS is not anticipating \$90 million, but is requesting authorization up to \$90 million to be able to take into account the debt service reserve fund.

Mr. Burns asked if there were any questions; staff can review the qualifications and characteristics of the financing. The publicly published rating from Standard & Poors has not been received yet, but COSMOS has received a verbal rating. Mr. Burns said a verbal rating was strong and is a commitment that it will be the reported rating. Mr. Burns asked whether the rating agencies have been informed of the increased par amount. Ms. Jones said the rating agencies are aware of the increased size of the transaction and the reason the rating report has yet not been published is that Congress is considering a jobs bill in the Senate, which will strongly enhance the QSCB program for it to be a direct subsidy similar to the Build America Bonds (BABS), which has been hugely successful. If that change is made and it is adopted in the jobs bill, it will make the marketability of these bonds infinitely more successful. S&P understands that is why COSMOS is waiting and that is why S&P is waiting so that the right title is in the report. Mr. Burns said that the decision related to the outcome of the jobs bill on whether the bonds will be subject to a tax credit in the form of direct subsidy or a tax credit program has no direct bearing on the Board's decision. It only has bearing on the marketability. To date, bonds being issued by school districts, charter schools using the QSCB to qualify school construction bonds programs heretofore, the idea was that they would be sold with the purchaser of the bond actually stripping the tax credit and in selling the tax credit and selling the tax credit for a profit, but it has not been a critical mass market for that structure so the feds are moving towards allowing for direct subsidy model and would have a significant impact on the marketability of the bonds. So, it is feasible that they would wait to see, but again it does not really change the basic feasibility of the bonds as the Board saw in January or December. Mr. Schulman asked if it would change staff's recommendation. Mr. Burns said 'no.' Mr. Schulman asked for staff's recommendation.

Mr. Burns stated staff's recommendation regarding this matter is to approve the request for financing. Mr. Garcia moved to approve staff's recommendation to approve the financing. Mr. Schulman seconded. The motion passed unanimously.

Item 4. Consideration, discussion, and possible action to award the fourth round of Texas Credit Enhancement Program grants.

Ms. Durso stated that three applicants had applied for the remaining funds for credit enhancement grant. The applicants were Kipp, Inc., Cosmos Foundation, and New Frontiers Charter School. The program is part of an agreement with the Department of Education that gave the State of Texas in consortium with Texas Education Agency (TEA) and the Charter School Association \$10 million to issue as grants and Texas Education Agency contributed \$100,000. The majority of the money has been issued, but \$976,000 is available. The evaluation team consisted of Dwight Burns, John Hernandez, Ms. Durso with some input from Mary Perry on the TEA staff. Staff provided the consolidated score sheets to the Board. The agreement with the Department of Education requires that the Board review certain aspects of the applicants and that would include the number of economically disadvantaged students that are being served, whether implementation of the grant will be in a timely fashion, whether performance goals determined by TEA are being met, whether the school has access to funds in the market either through loans or other availability. The point is to award grants to schools who might not have an opportunity to get funds in the market that are serving a highly disadvantaged population that are meeting performance standards and that have the ability to repay the bonds.

Using that set of criteria, the applications were reviewed. Kipp intends to issue \$35 million bonds, both tax-exempt and taxable in the fourth quarter of 2010, and is seeking a \$1 million grant. Kipp wants to purchase new sites, construct new facilities, renovate existing facilities and pay soft costs out of those bonds. Kipp has a triple B rating on the bonds issued in December 2009 and it anticipates receiving a similar rating in 2010. Of the campuses that will benefit from the award, those campuses serve a 90% economically disadvantaged population. Of the three districts in which these charters sit, the Houston ISD is one on the needs improvement list for Stage I reading and graduation. None of the individual campuses are in the "needs improvement" category.

New Frontiers Charter School is a much smaller charter holder than the other two applicants and is seeking to issue \$7,435,000 in education bonds by the end of April 2010. It seeks a credit enhancement grant of \$600,000. These financings will facilitate the renovation of its current facility, which is a building constructed in 1923 that was used as a Catholic boarding school. It will allow the charter holder to purchase some of the modular buildings currently in use as classrooms. Currently, because of the condition of the building, only the first floor is useable and the renovations would make the second floor useable enabling the charter holder to move out and return some of the leased buildings. Ninety percent of the students served by New Frontiers are economically disadvantaged. New Frontiers is in the San Antonio ISD which is listed at Stage II for improvement in reading, mathematics, and graduation.

Cosmos Foundation is seeking a grant on the bonds the Board just approved earlier in the meeting. The \$90 -million issuance is to construct eleven new facilities and renovate seven others. This allows Cosmos to increase its enrollment by two-thirds from about 12,000 students to almost 21,000 students. Most of the campuses that the proceeds will benefit from will be new and no data exists on the economic status of the students. Of the seven campuses that are currently open that will

be affected by the bond issue, an average of 62% of those students are economically disadvantaged. Four of the affected COSMOS charters are located in Houston and one in Lubbock. Both Houston ISD and Lubbock ISD are listed in the Title I improvement categories; however, none of the affected campuses need improvement, keeping in mind that seven of the eighteen affected campuses actually exist at this time.

A score sheet is provided to the Board showing a summary of the scores and some graphics about each school's financial position. The only of the three applicants that has submitted the financing documents is Cosmos and it is ready to go as Ms Debi Jones, Morgan Keegan, stated except it is waiting on information from Congress.

Mr. Garcia asked whether the criteria for the grant was to give charters who otherwise did not have access to the market as others might, it seems that Kipp and Cosmos both have more access to those funds as New Frontiers. It looks like Kipp and New Frontiers are tied regarding how many disadvantaged students are served. Mr. Garcia said that put New Frontiers at the top of the list, but it scored third out of the three. He asked about the scores.

Mr. Burns stated one question that occurred when reviewing the documentation for New Frontiers is what history of access to the capital markets does it have. Of the three, New Frontiers had the least the history or no history and the other two charter holders have been to the capital markets and have investment grade bond ratings. Kipp and Cosmos have significantly more staff and oversight from their Boards, expertise in financing capital and there really is no comparison on that point. That is not reflected in the overall scores here, but taking a look at the overall experience and just critical mass of experience in the capital markets then, there is a distinct between New Frontiers and the other two. So, the smaller charter holder has not been around as long, does not have the experience, and also with regard to the growth and student population it is actually by several years of experience has a more volatile enrollment history. Looking at the last eight years or so it has actually increased in enrollment quite a bit. New Frontiers is not anticipating any increase in enrollment going forward. The other two have a much more robust history of enrollment, of development both financially and with regard to enrolment, and have robust waiting lists and more of a corporate infrastructure for growth going forward.

Ms. Durso responded to Mr. Garcia's question about the scores. She stated that all three schools were rated by TEA in its portion very closely. In fact, it was something like 45, 43 and 41 among the three and New Frontiers is in the middle. In those respects, the schools are very close. Mr. Schulman asked what TEA's rating covered and Ms. Durso responded that TEA only evaluated the school portion of the application, section 3 which included financial strength and current budget projections. Mr. Schulman asked if the rating included the First Rating. Ms. Durso responded 'yes, that is Section E, starting with the First Rating.' Ms. Durso said the numbers she had quoted were related to the governance section. Mr. Burns said TEA did not respond to the financial questions. He also said that with regard to the responses in the grid received from TEA, it responded to all except the financial sections.

Ms. Durso stated that First Ratings were just recently applied to the charter schools through the last legislative session and each of the applicants were instructed to obtain those ratings from

TEA. Kipp and New Frontiers did comply and those were reported in their applications. Cosmos did not provide the information in the application, but TEA provided those ratings to staff by campus. Of the twelve campuses that are affected for Cosmos, the ratings varied between "superior achievement" for four or five schools, three in "above standard" and then the remainder are in "sub-standard." Mr. Schulman asked how many were in the "sub-standard" category. Mr. Burns answered 'four.' Ms. Durso stated four of the twelve. Mr. Canby asked of the three schools, New Frontier, Kipp and Cosmos, were there other issues of sub-standard ratings of the other two. Ms. Durso said 'no.' Ms. Schulman asked if these were the First Ratings, the financial ratings recently installed for charter schools, and Ms. Durso replied 'yes.'

Mr. Schulman recollected that when the first \$9 million credit enhancement grants were awarded there was an application where the rating system that was a part of that and if remembered correctly, in one of the Board meetings last year that the Board actually made the First Ratings a part of the application consideration. Ms. Durso said it was in the application. Mr. Schulman said at that time it was understood the ratings had not been applied formally for charter schools, but that they would be. He asked if the First Ratings are for the years 2007, 2008. Ms. Durso said the ones that were provided were from 2008-2009. Mr. Garcia said he believe it used 2007 and 2008 data for their 08-09 report. Ms. Durso said the report stated it used data for FY August 31, 2008, so that would have started in September of 07.

Mr. Schulman asked if there was any indication of what Cosmos has been rated financially in the subsequent year. Ms. Durso said not from the First Rating, but only the triple B credit rating. Mr. Schulman said evidently there had been improvement. Mr. Burns said except that the credit rating would not necessarily taken into account the same criteria that is assessed with the First Rating. Mr. Schulman asked if folks from Cosmos might address this issue. Mr. Tom Sage, Vinson & Elkins, said he did not know about the First Rating, but he was aware the school was working on it and it was something to be correct. Mr. Schulman asked if there was any understanding why there were sub-standard ratings. Mr. Sage said on one of the schools there were reports that were filed late and some administrative reasons, concern about whether it would affect the bond rating, whether or not it would affect their credit rating and what Mr. Burns is saying is correct. The credit rating agencies are just looking at financial where-with-all and the state rating is on the financial health as well as the administrative adherence to the state procedures. Mr. Sage said he thought the issues tended toward the administrative side and not the financial.

Mr. Burns stated staff recommends the enhancement grant be awarded to Kipp. Ms. Durso asked to add one other thing before the recommendation was considered. She said there was a \$3 million grant limit per charter holder. Kipp has received two previously and Cosmos has received one and each of these three awards were at the \$1 million level.

Mr. Schulman stated he must decline from participating further in the Board meeting due to the fact his firm represents Kipp and suggested that he leave the room. Ms. Durso advised Mr. Schulman that if he left the room the Board would not have a quorum. If he remains and abstains from voting, a quorum will exist. Mr. Burns said that in these circumstances... Mr. Schulman asked Ms. Durso if her advice was that although a quorum existed to convene it is also necessary to have a

quorum to do business. Ms. Durso said 'yes.' Mr. Garcia asked if the remaining grant funds could be distributed among the three applicants. Ms. Durso answered 'yes.'

Mr. Schulman said he would stay in the room, but would not ask any more questions and would abstain from further discussion as well as voting. Mr. Garcia began to chair the meeting and said he did not know whether he wanted to proceed. He knows that both Kipp and Cosmos have access to funds and that is one of the criteria that the other one does not have and then the other criteria was to serve economically disadvantaged populations which Cosmos does not have as much of as the other two schools. He stated he was torn between awarding all of the money to just one or maybe splitting it to all three of them. Mr. Canby stated that staff's recommendation was to award to Kipp. Mr. Canby asked staff to speak to criteria.

Ms. Durso re-stated the criteria for awarding the credit enhancement grant. Ms. Durso began to list the criteria. The first was to serve schools and communities in need and it says the grantee will focus on charter schools located in geographic areas which have a large portion or number of public schools that have been identified as needs improvement under Title I and a large portion of students from low income families or performing below proficiency on the TAKS test. Mr. Garcia asked Ms. Durso which school most meets the first criterion. Mr. Burns said Kipp was serving a larger percentage of disadvantaged students. Mr. Garcia said as is New Frontiers. Mr. Burns said of the three, New Frontiers.

Ms. Durso said the second criterion was to implement the grant project in a timely fashion. Ms. Durso said New Frontiers hoped to issue in late April, Kipp in the fourth quarter of 2010 and Cosmos imminently. Mr. Burns said that New Frontiers had not submitted a preliminary official statement yet. Ms. Durso said this was correct and neither had Kipp. Mr. Garcia said, based on that information, it would seem like both Kipp and New Frontiers both meet the criteria possibly more so than Cosmos. Ms. Durso said she thought it was the other way around; that Cosmos and New Frontiers are most ready and then Kipp later in the year.

Ms. Durso said the third criterion was to expand the supply of lendable funds and that is offering financing to folks who do not have as much access and providing financing on more favorable terms. The state law on bond financing is aimed at charter schools that are otherwise unable to access funds, additionally schools that might have access to bonds will benefit through the use of the grant because the guarantee will serve as a debt service reserve fund. Charter schools that already have financing will be able to lower their cost of borrowing by using this program to refinance debt with the benefit of bonds and a reserve fund provided by the grant.

Mr. Burns said with respect to this scenario, both Cosmos and Kipp have demonstrated significant ability to access the capital markets by achieving an investment grade credit rating from the nationally recognized rating firms and New Frontiers does not have this issue.

Mr. Garcia stated his preference was to split the \$900,000 between Kipp and Cosmos. Ms. Durso said one of the board members will have to make a motion. Mr. Garcia asked if the issue could be postponed until a full Board could meet. Ms. Durso said that was entirely up to the Board, if the Board decided not to take a vote. The Board is not required to take action. Mr. Burns said,

however, the need for a Board meeting with regard to additional conduit issuance or requests is not in your future. Ms. Durso said the only other aspect of it is that the Board will need to meet when new Board members are appointed. In March, the TPF Board will be considering those interested in filling the two vacancies and also have new rules to discuss. Mr. Burns said if and Mr. Garcia said his spot was one of the ones to be filled. Mr. Burns said if it is the Board's desire today, if it is your assessment that there is an even qualifications between Cosmos and Kipp, then, I mean, it is your decision, but it is totally a valid decision to make, the funds that are available total less than \$1 million so it is probably not going to make or break the marketability of the bonds with enhancement of \$400,000 a piece for these two so it does not seem to be a decision that needs to wait whether you decide to issue it all to one... Ms. Durso said it is really entirely up to the Board whether it decides make this decision today or gather more information or just wait until there are more people available. The decision is entirely up to the voting participants of the Board of the quorum.

Mr. Garcia asked Mr. Canby what he thought. Mr. Canby said he heard hesitation to act today so in consideration of that, he suggests tabling this item. Mr. Garcia said he agreed. Ms. Durso asked if that was a motion, a second and an action. Mr. Canby moved that this agenda be tabled. Mr. Garcia seconded. The motion passed unanimously.

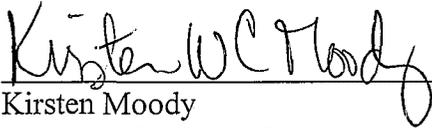
Mr. Schulman asked if staff had any other information for the Board now that it had reached the conclusion of the meeting. Ms. Durso asked for guidance about scheduling the next meeting and stated some new information will be brought to the TPF Board for its March meeting to determine new appointees to the CSFC Board. If Board members know of any interested prospective applicants to serve on the Board to share that TPF is seeking applicants. Ms. Schulman asked that the Board be contacted regarding their availability for a meeting. He also hoped that at the next meeting that new members be available. Ms. Durso asked if there was any additional information that could be provided to aid in the decision making process. Mr. Garcia asked to see a ranking of three by each criterion. Mr. Garcia asked if April the new board members would be named.

Mr. Garcia asked how candidates were being solicited. Ms. Durso said the announcement had been posted on the TPF website and also was published in the Texas Register asking qualified candidates based on our discussion with the TPF Board, that being either knowledge of finance or the charter school system. So far, we have received two applicants. Ms. Durso said that if the Board knows qualified candidates that would make good members, please encourage them to look into it.

Item 5. Adjourn.

The meeting adjourned at 10:55 a.m.

The foregoing minutes were approved and passed by the Board of Directors on February 19, 2010.


Kirsten Moody
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A



Open Meeting Archive

Agency Name: Texas Public Finance Authority
Date of Meeting: 02/04/2010
Time of Meeting: 10:00 AM
Board: Texas Public Finance Authority Charter School Finance Corporation
Street Location: Capitol Extension Hearing Room E2.028
City Location: Austin
State Location: TX
Status: Active
Date of Submission: 01/25/2010
Additional Information Obtained From: If you need any additional information contact Paula Hatfield, 512/463 5544, 300 W. 15th Street, Suite 411, Austin, Texas 78701.
Emergency Mtg: N
Agenda: TEXAS PUBLIC FINANCE AUTHORITY
 CHARTER SCHOOL FINANCE CORPORATION
 TUESDAY, FEBRUARY 2, 2010, 10:00 A.M.
 CAPITOL EXTENSION HEARING ROOM, ROOM E2.028
 AUSTIN, TEXAS 78701

1. Call to order.
2. Approve the minutes of the January 5, 2009 and January 7, 2010 Board meetings
3. Consideration, discussion, and possible action to approve publication of notice under Internal Revenue Code section 147(f) for, if required, or, in the alternative, approve a Request for Financing from Cosmos Foundation to issue approximately \$90 million Education Revenue Bonds, Series 2010A, 2010B, and 2010Q, including adoption of a resolution authorizing the Texas Public Finance Authority Charter School Finance Corporation Revenue Bonds (Cosmos Foundation), a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.
4. Consideration, discussion, and possible action to award the fourth round of Texas Credit Enhancement Program grants.
5. Adjourn.

Persons with disabilities, who have special communication or other needs, who are planning to attend the meeting should contact Paula Hatfield or Donna Richardson at 512/463 5544. Requests should be made as far in advance as possible.

Certification: I certify that I have reviewed this document and that it conforms to all applicable Texas Register filing requirements. Susan K. Durso, General Counsel, Certifying Official; Paula Hatfield, Agency Liaison.

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