

Texas Public Finance Authority

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

June 28, 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., Monday, June 28, 2010, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Dr. Marina Walne, Chair; Mr. Tom Canby, Member; Mr. Bob Schulman, Member; Mr. Paul Jack, Member; and Dr. Susan Barnes, Member. Representing TPFA's staff was: Mr. Dwight Burns, Executive Director; Ms. Susan K. Durso, General Counsel, and Paula Hatfield.

Present in their designated capacities were the following persons: Clarence Grier, RBC Capital Markets; Steve Perry, Wells Nelson; James Montfott, A. W. Brown Fellowship; Janet Robertson, Vinson & Elkins; Alfredo Segura Jr., Jesse Jimenez, New Frontiers Charter School; Drew Masterson, Raul Villasenor, First Southwest; Tom Sage, Andrews & Kurth; and Karen Mowbray, Odyssey Academy.

Item 1.Call to order.

Dr. Walne called the meeting to order at 10:11 a.m.

Item 2.Approval of minutes of the February 19, 2010 Board meeting.

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

Item 3.Elect a new Board Vice-Chair and Secretary in accordance with By-Laws.

Susan Barnes was elected Vice Chair and Paul Jack was elected Secretary by unanimous vote.

Item 4. Consideration, discussion and possible action on staff's recommendation to increase fees for conduit financings.

Susan Durso, General Counsel, requested that the issuer's fee be increased for conduit issuances. The number of issuances submitted has increased dramatically and the Authority's resources have been reduced. There is quite bit of work involved to review the bond documents necessary, particularly for multi-series issuances.

Staff recommends an increase from \$5,000 per issuance to \$6,000 and then an additional \$2,500 if there are multiple series. If the request is approved, it will be presented to the Authority's Board because it is a party to the contract. The TPFA Board's upcoming meeting will be in August.

Mr. Schulman asked if the funds go directly to the Authority's budget. Ms. Durso answered "yes."

Mr. Canby moved to accept staff's recommendation. Dr. Barnes seconded. The motion passed unanimously.

After a brief discussion between Board and staff, the Board expressed a preference for documents to be provided electronically on a CD disk or emailed in a pdf document, including summaries of the transactions and background information on the school.

Item 5. Consideration, discussion, and possible action on a Request for Financing for Odyssey Academy, Inc., in an approximate amount of \$15 million, including adopting a resolution authorizing Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Odyssey Academy, Inc.), Series 2010A, the Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Odyssey Academy, Inc.), Series 2010B, and Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Odyssey Academy, Inc.), Series 2010Q (Qualified School Construction Bonds – Direct Pay), approving a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

Mr. Burns distributed a document to the Board outlining options described in the CSFC procedures such as approving the request, tabling the request or rejecting the request. Mr. Schulman recused himself from the discussion and the room for this item.

Mr. Burns introduced this request for a \$15 million fixed-rate financing with an investment grade rating. The bond security is a pledge of charter school revenues and a deed of trust, a term that all debt will be retired by 2040.

Karen Mowbray, Business Officer for Odyssey Academy, provided information to the Board on Odyssey Academy, a charter school located on Galveston Island since August 1999. The school provides education for Pre-K through 8th graders and completed a school year with approximately 500 students. The enrollment for 2010-11 year is approximately 640. The bond issue purpose is to purchase the property currently in use, for a \$4 million renovation and to reimburse the school fund balance for expenditures already expended for capital improvements. The school focus is on math, science and technology curriculum, demographics reflect approximately 57% Hispanic, 25% African-American and the remainder is Caucasian and other. The school has a recognized academic rating, all the ALP or federal standards have been met for every year and have been approved for a FIRST rating and are FIRST accredited also.

Dr. Walne asked if the property was on 61st Street and Ms. Mowbray indicated it was on 61st Street and Stewart. It is about 73,000 square feet under roof. For the first 10 years, Odyssey occupied a prior Catholic school building that was destroyed in Hurricane Ike. After Hurricane Ike destroyed the school building, a Methodist church was used and some of it is currently being built out. Steve Perry, Wells Nelson, financial advisor for the school, provided a brief description of the structure of the financing. This debt will be issued as partially tax-exempt debt and a portion of the debt will be issued as Qualified School Construction Bonds, which is a program authorized by the American Recovery Reinvestment Act. The school has the allocation from the state, but the authority lapses somewhere around the beginning of September. QSCBs provide for a subsidy against the bond's interest rate.

Tom Sage, Andrews & Kurth, bond counsel for Odyssey, stated the act of the CSFC Board under the Federal Tax Code is to achieve both the QSCB status and the tax-exempt status of bonds. As is customary in conduit financing, this is not the State's debt, but belongs to the school. The terms of the indenture and the bonds will perfectly match the terms of the loan to the school.

Mr. Jack noted that the current enrollment covered the debt service payment. He asked if the school had to pay the full amount on the QSCB bonds if the government delayed reimbursement payment. Mr. Perry indicated that was possible, but would create a tighter financial situation for the school. Ms. Mowbray indicated that the enrollment figures being used were also conservative to allow a cushion to exist. Dr. Walne asked about the size of the waiting list. Ms. Mowbray said about 100 students are on the waiting list, but that those students are for spots where grade levels are full. Ms. Mowbray stated students are drawn from Galveston County, which includes the Clear Lake area, La Marque, Texas City, Dickinson, and Santa Fe. Typically, about 17% of the students come from Galveston Island and those are students whose parents work on the island.

Dr. Walne asked about competition from KIPP, which moved onto the island. Ms. Mowbray said Odyssey was aware of KIPP's presence, but that most of Odyssey's students stay with them through the eighth grade. Mr. Canby asked about the enrollment cap and Ms. Mowbray stated the charter was for 1,000 students. He also asked about outstanding items in TEA's Charter School Division in terms of compliance issues and asked about compliance issues within findings in the Audit Report. Ms. Mowbray said the coding issue identified in the Audit Report has been addressed.

Dr. Walne stated the Chair would entertain a motion. Dr. Barnes moved to approve the financing request of Odyssey Academy including approval of the Charter School Finance Corporation Resolution approving the request, approving the loan agreement and any other necessary documents to effectuate the bond sale. Mr. Jack seconded. The motion passed unanimously.

Mr. Schulman rejoined the meeting.

Item 6. Consideration, discussion, and possible action on a Request for Financing for Evolution Academy, including adopting a resolution authorizing \$4,020,000 Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Evolution Academy), Series 2010A, and \$1,100,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Evolution Academy), Series 2010Q (Qualified School Construction Bonds – Direct Pay), approving a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

Mr. Burns introduced the request for Evolution Academy for approximately \$5.6 million tax-exempt fixed rate bonds, approximately \$485,000 taxable bonds and \$1.2 million in taxable fixed rate QSCBs. The school was established in 2002 and is located in Richardson; it serves grades 9 through 12 and has a charter through 2019. In FY 2010, enrollment was 405 students. The waiting list has 120 students on it. The school has applied for a rating from S&P. The bond security is a pledge of charter school revenues and a deed of trust, a term that all debt will be retired by 2040.

Janet Roberston, Vinson & Elkins, spoke on behalf her client, Evolution Academy. She stated Cynthia Trigg was unable to attend the meeting because she was attending the National Charter School Association meeting in Chicago. Evolution Academy is distinguished in its service to 9th to 12th graders who are in danger of dropping out of high school. It is a very focused learning environment. Clarence Grier, RBC Capital Markets, discussed the school marketing proposal provided to the rating agencies. He stated Ms. Trigg founded the school in 2001. Ms. Trigg wanted to extend her apologies for not being able to appear before the Board. Evolution has an exemplary rating which is significant given the population served.

Mr. Schulman asked what period the renewed charter covered. Mr. Grier answered “ten years.” Mr. Schulman also asked if there were any long-term stages assigned by the Performance Based Monitoring System and Mr. Grier indicated there was no monitoring. Mr. Schulman also asked about the delivery method of the construction and he noted there was no architect assigned. Mr. Grier explained that the facility acquired belonged to Met Life and was designed as a training facility so very little redesign is needed. Mr. Schulman also asked if the project manager with the surname of Trigg, was related to the CEO and Mr. Grier stated he was the CEO’s husband. His role is functionary and limited.

Dr. Barnes asked about the accountability rating being “Acceptable.” Since the school is part of the alternative accountability system, the highest rating possible is “Acceptable.” The rating score sheet provided in the booklet needs to be replaced so it shows the school has the top rating. Dr. Barnes stated she thought the historical data or number of years the rating was awarded should be stated.

Mr. Canby asked if Dr. Barnes comments track the information on page G-4 of the Blue Book. Dr. Barnes said yes, and that if any school is under the alternative accountability system, it should make sure it is known that is the best that can be achieved.

Dr. Walne stated the Chair would entertain a motion. Mr. Schulman moved to approve the financing request of Odyssey Academy including approval of the Charter School Finance Corporation Resolution approving the request, approving the loan agreement and any other necessary documents to effectuate the bond sale. Mr. Canby seconded. The motion passed unanimously.

Item 7. Consideration, discussion, and possible action on a Request for Financing for New Frontiers Charter School, including adopting a resolution authorizing \$4,490,000 Texas Public Finance Authority Charter School Finance Corporation Education Tax-Exempt Revenue Bonds (New Frontiers Charter School), Series 2010A, approximately \$280,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (New Frontiers Charter School), Series 2010B, and Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (New Frontiers Charter School), and approximately \$2,720,000 Series 2010Q (Qualified School Construction Bonds – Direct Pay), approving a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

Mr. Burns introduced the request from New Frontiers, a charter school founded in 1998 in San Antonio, which has a charter in place until 2018. New Frontiers is a recipient of a TCEP (credit enhancement) grant. The school currently serves grades K-8th; its enrollment is 600 students and has a waiting list of 145 students. The school is applying for a rating with Standard & Poors. The school’s debt is scheduled to retire by 2040.

Alfredo Segura, Chief Executive Officer of New Frontiers Charter School, introduced Jessie Jimenez, the school’s business manager, and Drew Masterson, financial advisor from First Southwest. Mr. Segura stated New Frontiers is in its twelfth year of operation, has 600 students, and is a second generation charter school, and draw students from Bexar County.

The project is to purchase the facility that has been leased for the past twelve years. Last year, the school had three schools within the charter system. The early childhood academy received an exemplary rating and had received a recognized rating in the prior year. Two of the campuses, the early childhood academy and the elementary, are regular accountability and one campus is AEA.

Students served are 98% socio-economically disadvantaged and 76% at-risk children. Mr. Segura indicated the school had received its first FIRST rating.

Dr. Walne asked about the rating of the elementary school. Mr. Segura stated the elementary campus was acceptable and last year was the first year it moved from an AEA campus. Mr. Segura explained that the entire school started as AEA and has slowly shifted into the different groups that receive higher ratings. Dr. Barnes asked where the grade breaks occurred. Mr. Segura stated the New Frontiers charter was for Pre-K through 12th grade and the charter cap was 1136. The early childhood campus is for kindergarten through 3rd grade; the elementary school is for 4th and 5th grades. Mr. Schulman asked about the retention rate and Mr. Segura indicated it was 77%.

Mr. Jessie Jiminez, Business Manager, New Frontiers stated the school has cash of about \$1.5 million dollars and investments that total about \$375,000. Drew Masterson, First Southwest, indicated coverage for debt service is expected to be over 2 times. Mr. Jack asked if coverage was based on current period operating and not the fund balance and Mr. Masterson indicated that was correct. It will be a bit lower with the QSCB calculated into it.

Dr. Walne stated the Chair would entertain a motion. Dr. Barnes moved to approve the financing request of Odyssey Academy including approval of the Charter School Finance Corporation Resolution approving the request, approving the loan agreement and any other necessary documents to effectuate the bond sale. Mr. Schulman seconded. The motion passed unanimously.

Item 8. Consideration, discussion, and possible action on a Request for Financing for A. W. Brown, including adopting a resolution authorizing approximately \$5,250,000, Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (A. W. Brown), Series 2010Q (Qualified School Construction Bonds – Direct Pay), approving a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

Mr. Burns stated that A.W. Brown had submitted a request for \$5.25 million in variable rate bonds that will be privately placed and not sold on the open market. This charter school is located in Dallas and serves Pre-K through 6th campus. The projects to be financed with proceeds include a construction of a 1500 seat auditorium and for some land acquisition which will be used in the future to build a performing arts facility and athletic complex.

Tom Sage, Andrews & Kurth, bond counsel for the school, stated the school initially considered a public sale versus the private placement until January. The updated documents have been provided to staff. Mr. Sage asked if the Board would be willing to meet in July since the school's QSCB application and allocation will expire at the end of August.

A.W. Brown school is a first generation charter school in Dallas and operates two campuses. The school was one of the earliest schools to issue bonds and has completed that process a number of times. The additional purchase of the 105 acres is also for expansion in the future. The

transaction presented here is a private placement with Regions Bank; it is a floating rate deal based on LIBOR plus 4.5%. LIBOR was .35% on Friday, which is what this deal would be based on. When the LIBOR rate floats below the QSCB rate, the cost would be zero to the school. The QSCB rate on Friday was 5.4% so this seems very attractive to the school.

Dr. Walne asked how long the school has existed. James Montfott, Chief Financial Officer for A. W. Brown, answered "10 years." It started with 127 students and now has 1,360 students and 2,000 on the waiting list. The school services students in Pre-K through 6th grade. Parents come in over the summer on four Saturdays to learn how the school operates. After names of prospective students are placed on the waiting list, a lottery is used to select students for the openings. Mr. Montfott stated the school's last investment grade rating was BBB-.

Dr. Walne asked about the auditorium and whether the performing arts facility was the same building. Mr. Montfott said "no" and said both of those buildings along with the athletic complex would be built on the 105 acres of land. The school also owns 13 portable buildings from when the school began. Mr. Montfott stated that when Brown bought its bonds back and had an influx of cash about one-and-a-half years ago the 105 acres in Duncanville was purchased.

Mr. Schulman asked if the waiting list was cumulative. Mr. Montfott said the waiting list is wiped out every August 1. Students who complete the 6th grade program move into the private college preparatory programs within the Dallas-Ft. Worth area. The private college preparatory schools in the area have indicated it is not possible to handle the number of students from Brown and have requested that Brown offer 7th and 8th grades. Brown's Board has authorized the new grade levels being offered. Brown's retention rate is 92%.

Mr. Burns asked about derivative products in existence with outstanding debt or to be included in any plan for future debt. Mr. Montfott stated existing debt does include a SWAP with Regions Bank and no additional collateral is needed. Mr. Sage said \$14.9 million was incurred to finance the tender offer of the existing debt and purchase back \$17 million worth of debt. A.W. Brown's Board decided to use a variable to fixed-rate swap and that means they agreed to pay a fixed-rate for the rest of the debt and hedge the risk of variable rates going up very high. Mr. Sage stated that a variable to fixed-rate swap is one of the least alarming swaps on the menu of swap transactions. One of the biggest issues with swaps is the obligation to post collateral. Mr. Burns stated there were events of default. Mr. Sage agreed and noted counter-party risk was also an issue.

Mr. Sage said swaps were very expensive to get out of the transaction given the termination payment and unlike a debt that could be pre-paid, swaps are often very expensive to terminate. Regions offered a rate of 3.98% and the Brown Board agreed it was unlikely it could refinance at a lower rate on a long-term basis. Regions offered a swap in this transaction and whether or not the Board wants to go through it is unknown. Mr. Sage said it looked appealing in this case because if it was offered at 4.2% it would be less than QSCB rate. Effectively, it would produce a zero percent borrowing rate. Obviously, counter-party risk would exist. Mr. Jack asked that if the school did a bond offering that the rate on the bonds would be higher than the QSCB rate.

Mr. Montfott said the quote was a 7.2%. Mr. Sage said the bonds would be taxable. Mr. Burns stated staff's request for more information would provide time to review the contractual arrangements with Regions Bank. Staff recommended tabling the A. W. Brown request until more information can be reviewed.

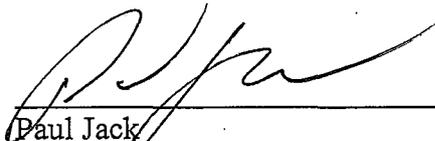
Dr. Walne stated the Chair would entertain a motion. Mr. Schulman moved to postpone consideration of this issue until the Board's next meeting. Dr. Barnes seconded. The motion passed unanimously.

The Board agreed to meet on Wednesday, July 7, 2010 at 2 p.m.

Item 9. Adjourn.

The meeting adjourned at 11:47 a.m.

The foregoing minutes were approved and passed by the Board of Directors on July 7, 2010.



Paul Jack
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A



Open Meeting Archive

Agency Name: Texas Public Finance Authority

Date of Meeting: 06/28/2010

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: 06/18/2010

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
MONDAY, JUNE 28, 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 February 19, 2010 Board meeting.
3. Elect a new Board Vice-Chair and Secretary in accordance with By-Laws.
4. Consideration, discussion and possible action on staff's recommendation to increase fees for conduit financings.
5. Consideration, discussion, and possible action on a Request for Financing for Odyssey Academy, Inc., in an approximate amount of \$15 million, including adopting a resolution authorizing Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Odyssey Academy, Inc.), Series 2010A, the

Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Odyssey Academy, Inc.), Series 2010B, and Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Odyssey Academy, Inc.), Series 2010Q (Qualified School Construction Bonds & Direct Pay), approving a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

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9. 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.

TRD ID: 2010004770

Datestamp: 06/18/2010 01:43 PM