

# TEXAS PUBLIC FINANCE AUTHORITY

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## MINUTES OF THE MEETING OF THE BOARD OF DIRECTORS OF THE TEXAS PUBLIC FINANCE AUTHORITY CHARTER SCHOOL FINANCE CORPORATION

August 22, 2014

The Board of Directors (the "Board") of the Texas Public Finance Authority Charter School Finance Corporation (the "TPFA 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., Friday, August 22, 2014, at the Capital Extension Hearing Room E2.016 in Austin, Texas. Present in their designated capacities were: Dr. Susan Barnes, Vice President; Mr. Paul Jack, Secretary, Mr. James C. Thompson, Director, and Dr. Nancy Grayson, Director.

Representing the Authority's staff were: Lee Deviney, Executive Director; John Hernandez, Deputy Director; and Pamela Scivicque, Director, Business Administration.

Present in their designated capacities were the following persons: Tom Sage and Delaina Mulcahy, Andrews Kurth LLP; Robert Nickell, Raymond James; Nancy Sanchez, South Texas Educational Tech.; Steve Perry, Wells Nelson and Associates; Azim Ansari, South Texas Educational Tech.; Julie Norton, and Yalcin Akyildiz, Harmony Public Schools; Jeff Nydegger, Winstead PC; Anand Kesavan, KIPP Austin Public Schools; Barron Wallace, Bracewell & Giuliani; David Ringelstein, Balch & Bingham LLP; Drew Masterson, First Southwest Co; and Clarence Grier, RBC Capital Markets.

### Item 1. Call to order

Dr. Barnes called the meeting to order at 10:07 a.m.

Dr. Barnes noted that a quorum was present.

Mr. Deviney stated that on August 7, 2014, the Texas Public Finance Authority (TPFA) Board appointed two new directors to the Corporation, Dr. Nancy Grayson and Mr. Jim Thompson. Mr. Deviney informed the members that TPFA received the resignations of Mr. Tom Canby and Mr. Robert Schulman.

**Item 2. Approve the minutes of the July 11, 2013, Board meeting.**

Dr. Barnes asked if there were any changes to the minutes as presented.

**Action:** Mr. Thompson moved to approve the minutes as presented. Dr. Grayson seconded the motion. The motion passed unanimously.

**Item 3. Consideration, discussion and possible action related to the Texas Public Finance Authority (TPFA) Charter School Finance Corporation (CSFC), including orders and resolutions related to the Corporation; the Corporation's Articles of Incorporation; Bylaws; Rules; Contract for Administration and Support Services between CSFC and TPFA including the possible selection and use of external vendors; and election of officers for the Corporation.**

Mr. Deviney recommended to the Board to take up one of the items separately, the selection and use of external vendors. He recommended that in the absence of TPFA having in-house general counsel, the Corporation will rely on external legal counsel to prepare the documents that relate to the agenda items. For the limited purposes of working through the articles of incorporation and bylaws, staff recommends appointing Mr. Barron Wallace with Bracewell & Giuliani, as counsel to the Corporation.

**Action:** Mr. Jack made a motion to adopt staff's recommendation to select Mr. Barron Wallace with Bracewell & Giuliani as limited purpose counsel to the Corporation. Dr. Grayson seconded the motion. The motion passed unanimously.

**The Charter School Finance Corporation moved into Executive Session to take up Agenda Items 3, 4, 5, 6 & 7 pursuant to Government Code §551.071 and pursuant to Government Code §551.074 at this time all visitors and staff with the exception of Mr. Deviney, Mr. Hernandez, Ms. Scivicque and Mr. Barron Wallace, Bracewell & Guiliani, as counsel to the Corporation, would please exit the room.**

**Recess into Executive Session at 10:14 a.m.**

The board reconvened the open meeting at 11:29 a.m. The board took no action as a result of matters discussed in closed session.

The Chair laid out a motion to approve the amended and restated administrative services support contract to waive the administrative fee for the three applications presented on August 22<sup>nd</sup>. The Corporation also discussed payment of fees to outside legal counsel. It was proposed that TPFA staff be authorized to select outside counsel from the TPFA bond counsel pool and negotiate a contract cap for each bond issue. Outside counsel would be engaged for each bond issue, subject to the agreement by each applicant to pay the issuer's counsel fee. In addition, the motion included the adoption of a resolution that includes the following elements. Confirmation, ratification and approval of amendments to the bylaws to: 1) reflect the change in the size of the board, 2) to change the terms of the board member's consistent with the TPFA resolution, and 3) resolving any inconsistencies with state law and other administrative matters, as have been directed by the TPFA resolution.

Discussion ensued regarding the nomination officers of the Corporation. Dr. Barnes was nominated for Board President, Mr. Thompson for Vice Chair and Paul Jack for Secretary/ Treasurer.

Discussion ensued regarding scheduling regular board meetings, either semi-annually or quarterly, to coincide with Bond Review Board meetings to provide date guidelines allowing a more predictable schedule for Charter Schools seeking funding and to entertain a practice or rule that if the application is not complete for review by the corporation by 18 days ahead of the board meeting the application review can be delayed until the next meeting. Mr. Deviney agreed.

**Action:** Mr. Thompson moved approval of the motion as laid out by the Chair, including the amendments as proposed by Dr. Grayson. Mr. Jack seconded the motion. The motion passed unanimously.

**Item 4. Consideration, discussion and possible action on a Request for Financing from Harmony Public Schools to adopt a resolution authorizing the issuance of one or more series of Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Harmony Public Schools); a loan agreement; a trust indenture; appoint Issuer's Counsel and other matters in connection therewith.**

Mr. Deviney stated Harmony Charter School is requesting issuance of QSCBs of up to \$9.4 million in two series of bonds which will lower the overall cost of the financing. The bonds are anticipated to be rated AAA with the addition of the Permanent School Fund (PSF) guarantee. Proceeds of the bonds will be used for remodeling an existing 31,000 sq. ft. warehouse in Laredo into a campus for K through 5 and to construct a 54,000 sq. ft. facility in Garland TX to accommodate K through 5. The estimated costs of issuance are \$304,500.00 in underwriters discount and expenses are anticipated to be \$133,120.00. Harmony projections indicate that the schools will have a minimum debt service coverage ratio of 1.68 before the expected subsidy payment. Harmony had in 2013- 2014 an enrollment of 25,647 students. Present are the financial advisors for Harmony, Steve Perry with Wells Nelson & Associates and underwriter, Debi Jones from Raymond James. Bond counsel is Andrews Kurth; Tom Sage and Delaina Mulcahy.

Mr. Steve Perry expressed gratitude to the board for reviewing the application and outlined the financing request. Harmony is issuing two series of taxable bonds. Series B and Series Q. Harmony Charter Schools expects the bonds to be rated AAA because of the PSF guarantee of the State of Texas. Harmony issued AAA rated bonds a few months ago. The previous financing was approximately \$100 Million. The amount of bonds they are initially talking about is roughly in the amount of \$8.8 million which will be used for construction and a small amount which will be used for paying costs of issuance. The bonds will be payable from revenues of the charter school. The PSF is in place and Harmony has applied and received conditional approval. The bonds are expected to price on or about October 1<sup>st</sup> and close on or about October 22<sup>nd</sup>. The difference between issuing these types of debt versus traditional charter school revenue bond is roughly \$6 million in interest costs.

Julie Norton, Director of Communications, Harmony Charter School and Nancy Sanchez, Chief Financial Officer, Harmony Charter School presented additional background information regarding the Harmony Charter School population, curriculum, enrollment projects, number of campuses and governance of the Harmony Board.

Mr. Jack inquired about the review of the previous offering and if the documents are in compliance with disclosures and that all the principals to the transactions have been thoroughly reviewed and are comfortable that the facts are adequately disclosed. Mr. Perry responded there was much attention paid in the last financing in compliance with prior undertakings.

Mr. Deviney stated traditionally the way the issuer counsel has been an in-house function, performed by TPFA general counsel, however, that position is vacant. In order to protect the Corporation, the Corporation outside counsel is needed for the applications before the Board today. Mr. Deviney suggested if it's the Board's pleasure, the Board could waive the applicant fee typically charged and that the borrowers would pay issuer's counsel fee at closing. Mr. Deviney said that TPFA has an approved bond counsel pool including about 10 firms, some of which are conflicted out of these transactions. However, the board could delegate that authority to staff to select a firm from among the TPFA pool.

**Action:** Dr. Grayson moved to delegate to staff the selection of Issuer's Counsel from the approved TPFA list. Mr. Thompson seconded the motion. The motion passed unanimously.

Mr. Thompson requested staff's recommendation on the substance of the motion to approve Harmony Charter Schools request for financing. Mr. Deviney stated that staff has reviewed the request for financing and understanding the industry is evolving and growing and they now have tools like the PSF guarantee that didn't exist before, that this would be a very strong application, as strong if not stronger than prior applications approved by this board.

**Action:** Mr. Jack moved to approve the request for financing for Harmony Public Schools as presented in the agenda. Dr. Barnes seconded. The motion passed unanimously.

**Item 5. Consideration, discussion and possible action on a Request for Financing from STET Public Schools to adopt a resolution authorizing the issuance of one or more series of Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (STET Public Schools); a loan agreement; a trust indenture; appoint Issuer's Counsel and other matters in connection therewith.**

Mr. Deviney outlined the request from STET for the issuance of up to \$4.6 million in bonds. The bonds will be issued as QSCBs to lower the overall cost of financing. These bonds will probably be placed with Regions Bank and would not be a public offering. The proceeds will be used to purchase and to renovate a 47,645,000 square foot campus in Harlingen, Texas and to renovate a 22,000 sq. ft. campus in McAllen, Texas and to

renovate an existing building and build an 8,400 sq. ft. administrative office facility in Weslaco, Texas. The estimated costs of issuance are \$140,000.

STET had an enrollment of 1,065 students in 2013-14. Representatives from STET and bond counsel on the project are available for questions.

David Ringelstein, bond and bank counsel to Regions Bank, the lender for this project, indicated that the request is for a private placement loan. The school is primarily located and operates in South Texas, Weslaco, Harlingen and McAllen. STET is pursuing the transaction through the Corporation to meet economies of scale, so STET avoids 3 separate bond transactions. This is a QSCB and Regents Bank has already loaned the \$4.6 million, which financed the construction and the improvements. STET is making the request to refinance the debt as a QSCB so that the school may receive the federal subsidiary.

Mr. Deviney noted that staff received some supplemental information and is questioning the enrollment numbers and debt service coverage ratios. Mr. Hernandez said supplemental information was obtained attesting to the previous coverage in excess of one and a half times and back up for their assumptions on the 96% of the average daily attendance. Ms. Nancy Sanchez, CFO, STET responded to questions from the Board regarding student enrollment and her understanding of the financial impact of the private placement loan agreement.

Discussion continued regarding the due diligence process and the Board's concern regarding the incompleteness of the packet. Mr. Deviney stated he will not take the project to the Bond Review Board until the staff has received all requested information and is comfortable with the project. Harmony indicated their understanding that the project may or may not proceed depending on final review of staff.

**Action:** Mr. Jack moved to approve the request for financing for STET as presented on the agenda and for the Staff to move the project forward only when staff is has completed its due diligence. The motion is seconded by Dr. Barnes. The motion passed with Dr. Grayson abstaining.

Dr. Barnes recessed the Board at 12:53 P.M. and called the meeting back to order at 12:58 p.m.

**Item 6. Consideration, discussion and possible action on a Request for Financing from KIPP Public Schools to adopt a resolution authorizing the issuance of one or more series of Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (KIPP Public Schools); a loan agreement; a trust indenture; appoint Issuer's Counsel and other matters in connection therewith.**

Mr. Deviney explained the request is for the issuance of up to \$55 million in bonds. If an allocation is available bonds are expected to be issued as Qualified Zone Academy Bonds (QZABs) for the overall cost of financing. The bonds are anticipated to be rated AAA with the addition of the PSF guarantee. Proceeds will be used to refinance a short term loan and to finish renovations at a south and east campuses which are in the Austin area.

Estimated cost of issuance is \$559,000 for underwriters discount and expenses are \$477,026. KIPP projections indicate that the school has a minimum debt service coverage ratio of 1.35 assuming the issuance of the QZABs. KIPP has their enrollment for school year 2013-2014 as 3,099 students. KIPP may return to this board in the foreseeable future of the request an additional \$25 million. Because the board resolution was limited to \$55 million, they only asked them to consider \$55 million in the absence of a new resolution from the KIPP Board. Representatives with KIPP include: Drew Masterson; First Southwest, Mr. Tom Sage, Andrews and Kurth bond counsel; and from KIPP, Anand Kesavan.

Mr. Kesavan provided an overview of KIPP, their financing request, and the funding in relation to other KIPP entities. KIPP Austin projects they have approximately \$10 million in cash, which serves as an operating reserve. KIPP indicated that their board would meet on September 8<sup>th</sup> regarding approval for the purchase of a third campus. Mr. Kesavan said that third campus has emerged since the board action approving the \$55 million. Within the \$55 million, they will probably have \$8 to \$10 million of additional room for the new project.

**Action:** Mr. Jack moved to approve the request for financing for KIPP and delegating authority to Staff to modify documents as needed to reflect changes to the Plan of Finance in the amount of \$55 million. Dr. Grayson seconded. The motion passed unanimously.

**Item 7. Discussion, consideration and possible action on Texas Credit Enhancement Program (TCEP), including policy on requests to transfer grant award to a refunding, discussion of 2013 application process, and approval of timeline for issuance of a new grant application.**

Mr. Deviney stated that there is over \$2 million available for awards. There are four pending applications to be brought for consideration at a subsequent meeting amounting to \$1 million. Staff recommends that a new grant application be adopted that no longer references the July 11, 2013 policy regarding the availability of a grant funding resulting from a refunding, and that the July 2013 policy be rescinded.

**ACTION:** Mr. Thompson moved to approve staff's recommendation to rescind the previously adopted policy of July 11, 2013, and authorized the issuance of a new grant application with a March 15, 2015 timeframe. Dr. Grayson seconded the motion. The motion passed unanimously.

**Item 8. Discussion of possible future meeting dates.**

Mr. Deviney stated he will get a proposed meeting schedule circulated to the board.

**Item 9. Adjourn.**

THE BOARD MAY GO INTO CLOSED SESSION REGARDING ANY ITEM ON THE AGENDA IF PERMITTED UNDER THE OPEN MEETINGS ACT, GOVERNMENT CODE CHAPTER 551.

The meeting adjourned at 2:04 p.m.

The foregoing minutes were approved and passed by the Board of Directors on May 20, 2015.

  
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Paul Jack  
Secretary, Board of Directors