

Texas Public Finance Authority

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Kimberly K. Edwards
Executive Director

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

April 27, 2007

The Board of Directors (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 AM, Friday, April 27, 2007, William P. Clements Building, Room 103, Austin, Texas. Present were: Mr. Bob Schulman, President, Ms. Marina Walne, Vice President and Mr. Omar Garcia. Representing TPFA's staff was: Ms. Kimberly Edwards, Executive Director, Ms. Judith Porras, General Counsel, and Paula Hatfield.

Present in their designated capacities were the following persons: Lewis Wilks, Coastal Securities, Drew Masterson, First Southwest Company and Tom Sage, and Nathelie Ashby, Vinson & Elkins, LLP.

Item 1. Call to order.

Mr. Schulman called the meeting to order at 10:00 a.m.

Item 2. Approval of minutes of the March 2, 2007 Board meeting.

Mr. Schulman asked if there were any corrections or additions to the minutes of the Board meeting of March 2, 2007. Ms. Walne moved to approve the minutes. Mr. Garcia seconded. The motion passed unanimously.

Item 4 was taken out of order. After introducing the item, Mr. Schulman stated he had a conflict of interest in this matter and would leave the room turning the meeting over to Ms. Walne.

Item 4. Consideration, discussion, and possible action on a Request for Financing from IDEA Academy, Inc., including the adoption of a resolution authorizing the Texas Public Finance Authority Charter School Finance Corporation (IDEA Public Schools Project) Education Revenue Bonds, Series 2007A and Taxable, Series 2007B, a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

Ms. Edwards introduced Drew Masterson, First Southwest Co., who is serving as financial advisor to the school. AG Edwards & Co. is the underwriter and Vinson and Elkins is bond counsel.

Mr. Masterson reviewed the summary of the projects and provided an overview of the school. IDEA Public Schools is the name of the overall entity. IDEA Academy is a charter school located in the valley that began in 1998. The original campus is for pre-K through 12th Grade and is in Donna. The school's first class is graduating this year. The school began with sixth graders. It is one of the schools that require the students be accepted to two four-year institutions in order to get their high school diploma. The school has a longer school day, a Saturday school, an extra month in the summer and all the components of top performing charter schools.

The school has moved into the growth phase. Two campuses have been opened with temporary buildings in August of last year. The Donna campus is made up of cinder block permanent buildings including a gym and a cafeteria. This financing would build permanent campuses for the McAllen and Brownsville campuses that opened this past August. It would also provide about \$2.1 million for the Donna campus to finish out their facilities and \$5.5 million for site acquisition and initial development of two campuses that are expected to open in 2009. One of those campuses has already been specifically identified and the other one may be identified in the next few weeks. If it is not identified, it will be removed from this bond issue.

Mr. Garcia asked where the two new sites would be located. Mr. Masterson said one would be in Lajoya and is referred to as the Upper Rio Grande campus and the location of the other is not known this point. Negotiations are underway at several sites and the issue is one of community buy-in for opening a campus. The money has been raised for the start-up deficit on the operating side out of primarily national charter school foundations. Mr. Masterson stated the original debt was also being refinanced on the Donna, McAllen and Brownsville campuses. It was provided through Self-Help, a program that will lend money to almost any charter school.

Mr. Garcia inquired about an obligation to Daimler Chrysler reflected in the financial statements. Ms. Walne stated it was a bus company that transports their students. Ms. Walne asked about the relationship of IDEA Academy to Peak Academy and whether the Gates money flows through Peak. Mr. Masterson stated they were sister schools who are closely affiliated in terms of their academic programs and they did receive funding from Gates. He stated over \$8 million had been raised in the last five months.

Mr. Masterson stated an investment grade rating of BBB- was received from Standard and Poors on the proposed bond issue. ACA quoted a higher insurance premium if a BB+ non-investment grade rating was received. The premium quote was locked this morning, based on the

investment grade rating, saving about \$1.8 million in insurance premium by virtue of receiving the investment grade rating. The insurance will raise the rating on the bonds to an A rating.

Ms. Edwards stated that IDEA did not submit a TCEP grant application. Mr. Masterson indicated IDEA Academy plans to submit a TCEP application during the second round of requests.

Mr. Garcia moved to approve the financing request. Ms. Walne seconded. The motion passed unanimously.

Item 3. Consideration, discussion, and possible action on a Request for Financing from Cosmos Foundation, Inc., including the adoption of a resolution authorizing the Texas Public Finance Authority Charter School Finance Corporation (Cosmos Foundation) Education Revenue Bonds, Series 2007 A and Taxable Series 2007B, a Trust Indenture, Loan Agreement, Debt Service Reserve Guaranty, Public Hearing, and other related matters.

Mr. Schulman rejoined the meeting after Item 4 was completed.

Ms. Edwards stated that the Cosmos Foundation operates the Harmony Science Academy. She introduced Tom Sage, and Nathelie Ashby from Vinson & Elkins, and Lewis Wilks, Coastal Securities. Mr. Wilks distributed information about the school. Mr. Wilks stated Dr. Sel and Dr. Tarim are the founding principles of the school. Harmony has been successful in obtaining additional charters and now has locations in Houston, Dallas, San Antonio, Austin and charters for College Station, Waco, Lubbock, Sugar Land and Beaumont.

The financing is for \$27.8 million in tax-exempt bonds and approximately \$1+ million in taxable bonds to fund several new campuses and to purchase some existing campuses. To date, Harmony does not own any of its facilities. Mr. Schulman asked how finances were handled as a single entity corporation with multiple charters. Mr. Wilks stated that their Cosmos Foundation audit contains every campus broken out. Ms. Edwards stated Cosmos makes loans between campuses, particularly to those campuses in the start-up phase. Mr. Wilks said the audit trail of money shows this and Ms. Edwards said the rating reports touch on that too. Mr. Schulman asked if services were shared. Mr. Wilks stated the administration of campuses are from the same body and costs are probably allocated among the campuses. Mr. Garcia inquired about a copy of the audit and Ms. Edwards stated the Authority had copies from the grant application.

Mr. Sage explained that in the past, when a school had one charter with multiple campuses the revenues from all the campuses were pledged to the bonds. In this case, the Attorney General only wants the revenue pledged from the charters being improved. Mr. Sage indicated this was a unique situation resolved with the Texas Education Agency and the Office of the Attorney General. The concept is called participating campuses and all the revenues from those campuses are pledged. Mr. Schulman stated historically the practice had been to shift monies through loans from one campus to another. Ms. Edwards indicated the rating report explains that the loan is for new campus set-up and is repaid. Mr. Schulman stated there was something called shared service agreements that charters in this situation sometimes elect to use.

Mr. Wilks reviewed the ratings report. He stated the expectation had been for a BBB- rating, which is investment grade. The actual rating was BB+ and a decision was made to release the rating given the market conditions. Insurance was denied on the transaction because of the non-investment grade rating, which reflected the school's aggressive growth plans.

Ms. Walne asked if facilities were located out of state and Mr. Wilks indicated facilities were located only in Texas. Ms. Walne asked Mr. Garcia how it was legal to loan funds from a charter school as a separate charter to the State even though it is under the Cosmos Foundation to another separate charter school. Mr. Garcia indicated he did not know the answer to the legal question. Mr. Schulman stated it was not known. School districts cannot loan funds from one public school to another. Charter schools have an issue as to whether or not they are under the same constitutional constraints (Article III, Section 51, 52, 53 of the Texas Constitution).

Mr. Wilks stated there was a superintendent over Harmony schools for curriculum, one for finance and then each campus has a principal. Mr. Garcia asked about the impact of receiving no insurance. Mr. Wilks stated it was 15-20 basis points in terms of interest costs. Ms. Edwards inquired about the timing of the pricing. Mr. Wilks explained Harmony did not want to be in the market at the same time as IDEA Academy and would like to price the week prior to or the week following IDEA's sale.

Mr. Schulman stated that at one time he had provided training to this school as a one time service, he was not on a retainer. Ms. Porras stated it was not a conflict. Ms. Porras asked how Mr. Schulman was selected for training. Mr. Schulman did not recall because it was years ago and is not a continuing relationship.

Mr. Garcia moved for approval. Ms. Walne seconded. The motion passed unanimously.

Item 5. Consideration, discussion, and possible action to amend the Corporation's bylaws.

Ms. Edwards provided information on two prospective board members, Kirsten Moody and Tom Camby. Ms. Porras drafted the bylaws showing new language to reflect the expansion of the board membership. Mr. Schulman suggested that the language reflect up to seven members and that the board consist of five members at this time. All the seven members could be appointed by a vote of the majority of the Board. The Board may decide in the future that one member may be appointed by the Commissioner.

Ms. Walne moved to increase the Board to seven members as stated in Section 2.9.1 of the Bylaws. Mr. Garcia seconded. The motion passed unanimously.

Mr. Porras stated the two-year terms of the Board can be indefinite. After a term expires, a Board member could be re-elected by the Board for an unlimited number of terms. The Board discussed a removal clause for cause and non-cause. Mr. Garcia asked about staggered terms. Mr. Schulman requested these issues be considered at a future time.

Ms. Walne moved to accept the language prepared by Ms. Porras regarding Section 2.9.2 of the Bylaws. Mr. Garcia seconded. The motion passed unanimously.

Item 6. Consideration, discussion, and possible action concerning a second round for applications for the TCEP federal grant fund allocations and establishing a schedule therefor.

Ms. Edwards reminded the Board that \$1.3 million TCEP grant funds remain to be awarded. She proposed that a second round of applications be requested that would follow more or less the same schedule. The application form would be edited slightly and be due September 15. Staff recommends that the Board authorize this process to begin.

Ms. Walne moved to authorize the process to establish a second round of applications for the TCEP federal grant fund. Mr. Garcia seconded. The motion passed unanimously.

Mr. Schulman announced the next item calls for a closed meeting. He requested that those in attendance voluntarily excuse themselves. The Board met in closed session beginning at 11:05 a.m.

Mr. Schulman reconvened the open meeting at 11:11 a.m. Mr. Garcia moved to add Kirsten Moody and Tom Camby as Board members. Ms. Walne seconded. The motion passed unanimously.

Item 7. Adjourn.

The meeting adjourned at 11:15 a.m.

The foregoing minutes were approved and passed by the Board of Directors on July 25, 2007.

Omar Garcia
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A



Open Meeting Submission

Success!

Row inserted

TRD: 2007003169
 Date Posted: 04/19/2007
 Status: Accepted
 Agency Id: 0113
 Date of Submission: 04/19/2007
 Agency Name: Texas Public Finance Authority
 Board: Texas Public Finance Authority Charter School Finance Corporation
 Liaison Id: 3
 Date of Meeting: 04/27/2007
 Time of Meeting: 10:00 AM (###:## AM Local Time)
 Street Location: 300 West 15th Street, Room 103
 City Location: Austin
 State Location: TX
 Liaison Name: Paula Hatfield
 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.
 TEXAS PUBLIC FINANCE AUTHORITY
 CHARTER SCHOOL FINANCE CORPORATION
 FRIDAY, APRIL 27, 2007 10:00 A.M.
 WILLIAM P. CLEMENTS BUILDING, ROOM 103
 300 W. 15th STREET
 AUSTIN, TEXAS 78701

- Agenda:
1. Call to order.
 2. Approval of minutes of the March 2, 2007 Board meeting.
 3. Consideration, discussion, and possible action on a Request for Financing from Cosmos Foundation, Inc., including the adoption of a resolution authorizing the Texas Public Finance Authority Charter School Finance Corporation (Cosmos Foundation) Education Revenue Bonds, Series 2007 A and Taxable Series 2007B, a Trust Indenture, Loan Agreement, Debt Service Reserve Guaranty, Public

Hearing, and other related matters.

4. Consideration, discussion, and possible action on a Request for Financing from IDEA Academy, Inc., including the adoption of a resolution authorizing the Texas Public Finance Authority Charter School Finance Corporation (IDEA Public Schools Project) Education Revenue Bonds, Series 2007A and Taxable, Series 2007B, a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

5. Consideration, discussion, and possible action to amend the Corporation's bylaws.

6. Consideration, discussion, and possible action concerning a second round for applications for the the TCEP federal grant fund allocations and establishing a schedule therefor.

Closed Meeting

Pursuant to Government Code, Section 551.074 to consider appointments of additional Directors to the Board.

Reconvene Open Meeting

The open meeting will be reconvened for final action on matters considered in closed meeting.

7. 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.

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