

Texas Public Finance Authority

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MINUTES OF THE MEETING OF THE TEXAS PUBLIC FINANCE AUTHORITY

CHARTER SCHOOL FINANCE BOARD MEETING

July 25, 2007

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 3:00 PM, Wednesday, July 25, 2007, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Mr. Bob Schulman, President, Ms. Marina Walne, Vice President, Ms. Kirsten Moody, Member and Mr. Tom Canby, Member. 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: Drew Masterson, First Southwest Company; Lisa Helfman, Vinson & Elkins, LLP; Arnold Alaniz, Rick Salvo, TEA Charter Schools; and Robin Plan, Telicon.

Item 1. Call to order.

Mr. Schulman called the meeting to order at 3:08 p.m.

Item 2. Approval of minutes of the April 27, 2007 Board meeting.

This item was tabled pending the arrival of Ms. Walne.

Mr. Schulman asked if there were any corrections or additions to the minutes of the Board meeting of April 27, 2007. Ms. Walne move to approve the minutes. Ms. Moody seconded. The motion passed unanimously.

Item 3. Consideration, discussion, and possible action to approve a Request for Financing from Uplift Education Revenue Bonds, Series 2007, including the adoption of a resolution authorizing the Texas Public Finance Authority Charter School Finance Corporation (UPLIFT EDUCATION), a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

Ms. Edwards stated that Uplift Education operates Peak Academy and North Hills charter schools. The approximate \$11 million request for financing provides funds for Peak Academy and three new campuses. She introduced Uplift's financial advisor, Drew Masterson, First Southwest Company and Bond Counsel, Lisa Helfman, Vinson & Elkins, LLP.

Mr. Masterson provided a summary presentation given to credit rating agencies. He stated Uplift Education is the parent, not-for-profit corporation created in 1996. Uplift's open enrollment charter was granted in 1996 for their first school that began operation in 1997. The school started out with 218 students and had over 1,500 students this past year. This year's summer session has begun with over 2,000 seats taken. The Peak School opened in 2004-05 with grades 4-5. The North Hills School located in Irving is one of the highest-ranking public schools in the United States according to Newsweek; it was ranked 12th in high schools for 2006 and 13th in 2007. All Uplift schools use the International Baccalaureate curriculum and framework that is a very rigorous, college prep program. Peak Academy and North Hills have maintained exemplary or recognized ratings since they opened. One of the new schools that opened this week is the Williams Prep located in near Southwestern Medical School in Dallas for kindergarten, grades 1-6 and 9th grade. This school will grow to full kindergarten, 1-12 grades total, with 1200 students. Williams Prep is focused on an entry-based curriculum emphasizing math, science and technology.

Ms. Walne asked if UT Southwestern was partnering with Uplift Education. Mr. Masterson answered, "Yes", and stated it is an informal arrangement consisting of participation by board members. The site was purchased commercially, but the seller is a benefactor and reduced the price \$150,000 below other offers as a donation to the school. He also provided owner financing for a period of three to five years. In addition, one of Uplift's board members contributed \$2.5 million as a down payment toward the purchase of the real estate.

The next new school is Summit Prep in north Arlington. Summit Prep is a conversion of an existing private school, Arlington Country Day School. The neighborhood transitioned away from the students' ability to afford private school tuition. The school was languishing and the owner of the site found Uplift. The owner researched Uplift Education for 2-3 years, attended board meetings and gave them a 50-year heavily subsidized land lease on 17 wooded acres that contains small school buildings. The first year's lease payment is \$15,000 and grows to a little over \$100,000. The land is located next to the Dallas Cowboys' new stadium. The school will open with a student body from kindergarten through 9th Grade. As an open enrollment charter school, a lottery was conducted because the applicant pool was so large stemming from the reputation of the Irving school. Only 50% of the existing Arlington Country Day students were chosen, so the school has already expanded its capacity to accept additional students.

Mr. Schulman asked how many students would attend Summit. Mr. Masterson stated the number was 431. Mr. Masterson said Summit would eventually grow to include kindergarten through 12th grades. The curriculum focuses on technology and international aspects of it. Roughly 75% of the students will be from low-income families.

The last new school is Hampton Prep in south Dallas. It will open with 6th, 7th and 9th grades focusing on the community to attract low-income students. The site is the University of North Texas campus that was vacated this past year. It was acquired at market price, but it was a perfect facility. A million dollar foundation grant was received for help with the down payment.

Because the schools are open enrollment, no testing is done prior to student admission. Higher expectations are addressed by having students and parents sign a contract committing to high performance and teachers are on call to deal with homework issues. The goal is for all students to be admitted to one four-year college prior to receiving a high school diploma. Uplift also emphasizes a community service requirement. The degree plan more than satisfies the Texas Distinguished Plan, the State's college-bound curriculum.

The waiting list table is an important factor for the rating agencies. North Hills, a campus that is 10 years old, has a waiting list about the size of total enrollment. Peak Academy, opened since 2004, is starting to build healthy waiting list. Williams and Summit International opened with significant waiting lists. Hampton did not get its building permit from the City of Dallas until May and that delayed recruiting, but it also has a waiting list for 8th grade.

Mr. Masterson provided a list of colleges where North Hills' graduates had been admitted. Uplift also emphasizes a community service requirement, and the degree plan more than satisfies the Texas Distinguished Plan, the State's college-bound curriculum.

Uplift's fundraising goal is \$30 million. A new campaign has begun in a silent mode at present. Historically, Uplift received \$24.2 million in commitments over the last three years in cash combined from Gates, Texas High School project, and individual donors. A community foundation donated the Peak campus and offered to build a gym on the property, which is worth over \$10 million. Additionally, the school has received a science grant and a Dell Foundation grant.

Mr. Masterson reviewed relevant financial information that is the same as in the Official Statement: \$1.8 million is available for debt service, and \$1.18 is available after debt service. Senior debt service starts at \$1.582 and will grow to maximum debt service of \$1.788. Coverage of the future maximum debt service is estimated to be about 1.63 this year and 1.44 in future years. These ratios were important to the rating agencies. The debt service coverage on historical revenues is right at one times debt service, which was another key factor for Standard and Poor's. Cash on hand is respectable for a charter school.

Uplift received two investment grade ratings, from Moody's and Standard and Poors', and it is the first charter school in the country to have two investment grade ratings. Standard & Poor's is very important to the bond insurer, ACA. ACA is an A rated bond insurer. If ACA's interest rate benefit or cost savings is not advantageous to Uplift, the bonds will go to market without ACA bond insurance.

Ms. Walne commented on her understanding that Uplift's director is working on a collaborative school with the Dallas Museum of Science. Mr. Schulman indicated he too was aware of this.

Mr. Schulman asked if there were two separate charters. Mr. Masterson responded that there are two separate charters under one charter-holder, and three additional charter applications are pending for the three new schools, but the three schools will open under Uplift's charter. Ms. Moody confirmed that charter schools are motivated to seek separate charters so that they are eligible for federal start-up funding. Mr. Schulman questioned whether or not cross funding of charters had been analyzed when reviewing the financials. Ms. Helfman responded that this has been analyzed as the Attorney General has questioned the same point. Mr. Schulman indicated he believed that Uplift would be fine, but in the future, the Board would want to see that analysis.

Mr. Masterson stated that the financial model is 36 pages. The model actually looks at each school, the number of students per grade, the number of sections per grade, and enrollment assumptions for each section; it builds from the current budget by school for individual revenue projections. The bottom-line is that each of the school's cover their debt service and provide some funds for the central office overhead. Mr. Schulman asked if there was assurance that the relative strength of these separate entities would be similar to what has been presented today, again, as cross-funding is not permitted unless there is a shared service agreement. Ms. Helfman stated state law required proving up that the dollars coming in for a school are being applied to students at that school and the information demonstrating compliance with this requirement will have to be presented to the Attorney General's office. Each school is responsible to cover its own debt.

Ms. Edwards stated in terms of the revenue pledge, it is the consolidated gross revenues of Uplift Education that are pledged to the bonds. The rating agencies do look at it on a consolidated basis. She added that normally there is a security interest in every piece of property being financed, but in this case the security pledged is the mortgage on Peak and North Hills.

Mr. Schulman questioned how schools were pledging the property of one charter toward to the debt of another from a legal perspective. Ms. Helfman stated it was under a Master Trust Indenture structure. There had been cross funding in other deals where there are multiple campuses and there have been no problem with it. If there were a default on the bonds, any of the properties would provide remedy because it is a master note. Mr. Schulman asked if TEA and legal advisors were comfortable with the consolidated real property security. Again, when there is one charter holder and multiple campuses, each campus should be viewed as a separate entity.

Ms. Helfman restated that in this case each school can cover its debt independently of the others. To date, the Attorney General has not disapproved any necessary consolidated real property securitizations.

Ms. Edwards stated as a policy issue from a public finance perspective that these bonds have a similar structure as health care and public universities a decade or so ago. Mr. Masterson added that this is very similar to the consolidated revenue system financing programs, for tuition revenue bonds, for our higher education institutions. Ms. Walne suggested a remedy to this issue would be that the Department of Education amend its policy so charters would not have to open individual new campuses to get the start-up money and could function under one umbrella organization.

With respect to Uplift's schedule and the procedure, Mr. Masterson reported that Uplift was pursuing Bond Review Board approval, a requirement from the 80th Legislature. He acknowledged the Authority's helpfulness in the process. Uplift will appear before the Bond Review Board on August 8 so the proposed sale date of August 7 will slide for a few days. August 30 is the closing date and is important because construction needs to begin. As a result of HB 1400 passed in the last legislative session, charter schools financing through this Board have to receive the Bond Review Board's approval of the issuance. Numerous technical clarifications and corrections were needed to the statute, one of which was to make certain the charter school bonds are entitled to tax exempt treatment as governmental bonds. Clarifying, in HB 1400 that the bonds are issued on behalf of the state is considered to have clarified the issue of the applicability of Bond Review Board's statute. However, it seemed to be important that the bond maintain tax-exempt governmental bond status.

Mr. Masterson explained that the Bond Review Board only meets every other month so it can affect timing. Without an administrative exemption, it is necessary to apply on their timetable. Their Board meets twice monthly; one time to hear requests followed by a four day review process. If no comment is forthcoming, staff can approve the requests. A discussion of the potential of an administrative exemption from the Bond Review Board and the requirements for an exemption process ensued.

Mr. Canby asked if anyone was aware of any regulatory factors that would cause TEA to question the eligibility of the school to expand a campus. Staff members of TEA in the audience responded, "No".

Ms. Walne moved to approve the request for financing and adopt the resolution. Ms. Moody seconded. The motion passed unanimously.

Ms. Walne asked if this presentation had to be made before the Bond Review Board. Mr. Masterson said he had already presented it. Mr. Schulman asked if the Bond Review Board would be studying the minutes of this meeting, and if so, he would emphasize that the Board approved and liked the transaction.

Item 4. Election of Officers.

Ms. Walne was nominated to be President; Mr. Garcia, Vice President and Ms. Moody, Secretary. Ms. Canby moved approval of the nomination of officers. Ms. Moody seconded. The motion passed unanimously.

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

Ms. Porras summarized proposed amendments to the Corporation's bylaws. Section 2.2 is amended to provide that vacancies would be filled by the affirmative vote of the majority of the remaining directors, and a director so appointed shall serve for the unexpired term of the predecessor director. Section 2.7 is clarified to specify that a majority of the number of board members actually in office constitutes a quorum. Section 2.92 is amended to reflect Mr. Garcia's suggestion of staggered terms. It provides for staggered terms of two years each, terminating on May 1 of odd numbered years, for two members, provided that the renewal terms of the original three board members will terminate May 1, 2008. New section 2.93 addresses Mr. Schulman's suggestion that directors may be removed with or without cause by a majority of the remaining Board members. Ms. Walne suggested that the word "Chairman" in Section 2.9 be changed to "President" to be consistent with the term used throughout.

Ms. Walne moved to accept the proposed amendments, as corrected. Mr. Canby seconded. The motion passed unanimously.

Item 6. Consideration, discussion, and possible action to amend the administrative contract between the Corporation and the Texas Public Finance Authority.

Ms. Edwards stated this was the document that sets forth how she and Ms. Porras provide staff services to the Corporation. Ms. Porras has added an automatic renewal provision and specified that Ms. Edwards would serve as the Executive Director of the Corporation. Ms. Moody questioned the \$5,000 fee, recalling that the application for the federal grant represented there would be no administrative fee. Ms. Edwards explained this fee is not related to the TCEP grant. It is paid out of bond proceeds and is charged for the issuance of bonds.

Ms. Moody moved to approve the proposed amendments to the administrative services contract. Mr. Canby seconded. The motion passed unanimously.

Item 7. Consideration, discussion, and possible approval of a revised application form for the Texas Credit Enhancement Program.

Ms. Edwards reviewed a prior Board discussion that occurred after the first group of 14 applicants concerning the efficiency and effectiveness of the application. The balance of \$1.4 million funds is to be awarded to a second round of applications. The application can be streamlined and is provided in draft form for review. The new deadline for applicants to file would be mid-October. The scoring matrix has not been recalibrated yet. Ms. Walne inquired about the more significant changes.

Ms. Porras stated many of the changes are a change of form, for a major reduction in pages. The form provides, in explicit, bold letters that applicants are not to resubmit the application form and instructions. The critical information was restructured on the first page, including the certification of the Chairman of the charter's governing board. The other major change was that the application was converted to a Word document, rather than an online application that links into TEA's database, which had a locked form that was hard to manipulate. The repetitive and duplicative questions about the project were eliminated.

Ms. Moody stated her belief that the schools would want very specific guidelines since the schools are experienced in dealing with TEA.

Ms. Walne moved to approve the form and substance of the new application. Ms. Moody seconded. The motion passed unanimously.

Item 8. Adjourn.

The meeting adjourned at 4:37 p.m.

The foregoing minutes were approved and passed by the Board of Directors on January 4, 2008.

Kirsten Moody
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A



Open Meeting Submission

Success!

Row inserted

TRD: 2007006121
Date Posted: 07/17/2007
Status: Accepted
Agency Id: 0113
Date of Submission: 07/17/2007
Agency Name: Texas Public Finance Authority
Board: Texas Public Finance Authority Charter School Finance Corporation
Liaison Id: 3
Date of Meeting: 07/25/2007
Time of Meeting: 03:00 PM (###:## AM Local Time)
Street Location: Capitol Extension Hearing Room E2.028
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
 WEDNESDAY, JULY 25, 2007 3:00 P.M.
 CAPITOL HEARING EXTENSION, ROOM E2.028
 AUSTIN, TEXAS 78701

Agenda:

1. Call to order.
2. Approval of minutes of the April 27, 2007 Board meeting.
3. Consideration, discussion, and possible action to approve a Request for Financing from Uplift Education Revenue Bonds, Series 2007, including the adoption of a resolution authorizing the Texas Public Finance Authority Charter School Finance Corporation (UPLIFT EDUCATION), a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

4. Election of Officers.
5. Consideration, discussion, and possible action to amend the Corporation's bylaws.
6. Consideration, discussion, and possible action to amend the administrative contract between the Corporation and the Texas Public Finance Authority.
7. Consideration, discussion, and possible approval of a revised application form for the Texas Credit Enhancement Program.
8. 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. Kimberly K. Edwards, Executive Director, Certifying Official; Paula Hatfield, Agency Liaison.

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