

Texas Public Finance Authority

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

September 9, 2011

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., Friday, September 9, 2011, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Dr. Marina Walne, Chair; Mr. Paul Jack, Secretary; Mr. Tom Canby, Member; and Dr. Susan Barnes, Member. Representing TPFA's staff was: Ms. Susan K. Durso, Interim Executive Director and General Counsel, John Hernandez, Deputy Director and Paula Hatfield.

Present in their designated capacities were the following persons: Richard N. Rickey, Margina Escobar, Orenda Education; Todd Brewer, Andrews & Kurth; Brian Garcia, Daniel Rosenveare, Piper Jaffray; Justin Groll, Texas Bond Review Board; and Ted Christianson, Christian Merritt, Government Capital.

Item 1. Call to order.

Dr. Walne called the meeting to order at 10:00 a.m. Mr. Jack moved to excuse the absence of Mr. Bob Schulman. Dr. Barnes seconded. The motion passed unanimously.

Item 2. Approval of minutes of the December 10, 2010 Board meeting.

Dr. Walne asked if there are any changes to the minutes as presented. Ms. Durso stated there was a correction to the minutes. The date referred to in Item 2 should be July 7. Mr. Jack moved to approve the minutes as amended to reflection the date correction. Dr. Barnes seconded. The motion passed unanimously.

Item 3. Terms of service for Thomas Canby and Paul Jack.

Ms. Durso stated she was now serving as the Interim Executive Director and General Counsel. She stated Mr. Burns had resigned and returned to the private sector. The TPFA Board appointed her Interim Executive Director in addition to serving as the Authority's General Counsel and was serving in those roles to the CSFC Board.

She stated that Mr. Canby and Mr. Jack's terms of service expired May 1, but they continued to serve according to the Bylaws until either reappointment or replacement occurs. She stated that both had indicated an interest in continuing to serve on the Board and the TPFA Board will consider that item at its next Board meeting and she would report back to the TPFACSF Board.

Item 4. Consideration and possible action on Texas Credit Enhancement Program grant application issuance and staff report on fund balance.

Ms. Durso stated that one of the grant recipients, Arlington Classics Academy, refunded its 2004 A&B series, which was supported by one of the TCEP grants in the guaranty amount of \$295,000. When the obligations were refunded, it cancelled the guaranty. Those funds are now available for another application. In addition, there has been some growth in the fund balance. There is a modest interest growth of about \$6,500 a month, but with the current low interest rates, that amount is declining on a monthly basis. Nonetheless, the US Department of Education requires that if there is a million dollars in the fund that applications be released. It is staff's recommendation that given the fact approximately \$850,000 will be available at the end of the year, it would be a good time to issue another round of applications providing for the early part of winter and spring to process the responses and possibly distribute grant awards in April or May.

Staff requests authorization to bring the Board a revised application for review and consideration, along with a timeline, for issuing the RFP to get the applications, evaluate the responses and provide them to the Board for consideration sometime in December or January. Dr. Walne asked what process was envisioned for making those revisions, what feedback will be needed. Ms. Durso stated she had been through the application and it had been revised before the last time it was issued in 2009. Now, it gathers the information that is needed, it has a fairly good application process. The enhancement application form included in the Board packet shows the areas the application covers. If there is new information the Board would like to see, it can be added. Dr. Barnes asked a question about page 9. One of the documents requested as an attachment is the school's wait list. She stated that because she had completed her State security training the prior week, it reminded her that personal identifiable information includes name, address, address of the family, social security number was protected and she asked if the form the waiting list was kept by schools provides any of that information and whether it would be an issue. Ms. Durso stated that the waiting list information could be requested without personal identifiable information being included.

Mr. Jack asked about how the criteria and evaluation process was developed from staff's perspective. Ms. Durso stated a scoring matrix was included that was used in 2009 and it is believed to have met

the Board's satisfaction at the time. Dr. Walne said that the Board had provided quite a bit of input in 2009, and wondered if there was any value to be gained from soliciting feedback from schools. Ms. Durso stated staff could perform an informal poll and provide that information to the Board. Part of the process is that applicants have a question and answer period available to them. Dr. Walne asked that the wait list be broken down by grade level so it can be matched against the projected enrollment figures that are by grade. Mr. Jack stated that although the interest earnings were meager off the fund balance of approximately \$800,000 he would like to know how the funds are invested. Mr. Hernandez stated that the funds were invested in the State's TexPool with all other funds. Dr. Barnes noticed that there were four schools that forfeited their allocation and she wondered if knowledge about those forfeitures would cause any change in the application. Ms. Durso stated that in all those cases the project plan or timing changed and the grants were no longer needed.

Item 5. Consideration, discussion, and possible action on a Request for Financing for Orenda Education and adoption of a resolution authorizing issuance of Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Orenda Education) Series 2011A, Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Orenda Education), Series 2011B and Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Orenda Education) Series 2011Q (Qualified School Construction Bonds – Direct Pay) in an amount not to exceed \$9,500,000, and the execution of a Loan Agreement, a Trust Indenture and other documents and resolving other matters in connection therewith.

Ms. Durso stated the resolution of the trustees of Orenda Education requested borrowing \$9.5 million. A revised resolution is on the dais for your review instead of the copy provided in your packets. The one in the packet requests \$9 million and now the aggregate principal amount is a not-to-exceed amount of \$9.5 million. There would be three series: two taxable series and one tax-exempt series. The tax-exempt would be Series 2011A, a taxable 2011B, and QSCB direct-pay in the series 2011Q. The QSCB allocation of \$5.25 million expires in December.

The project is to purchase approximately 30 acres in Williamson County to build a preparatory campus in Georgetown. Currently, Orenda has five campuses, three are residential treatment schools in south Texas and Lubbock, and two schools in Georgetown, a preparatory and technical school. Information about the school's philosophy is provided. Growth for the preparatory school is 1,200 or 100 students per class. One item still needed is to find out where the projected growth number comes from since there was no wait list provided. The school was asked to take revenue and expense projections and to show their debt service coverage as shown on the spreadsheets. One spreadsheet shows a flat enrollment scenario which indicates that even if no growth occurred and no facilities were built in the technical school or in any of the residential treatment campuses, it would still be able to meet the 1.1% coverage test in their bond covenants. Also, if the projected enrollment at the college prep goes as planned, adding additional grades, but had no other growth, no new campuses and there is a reduction in state aid, Orenda still meets its debt service requirement of

1.1%. Finally, if Orenda has flat enrollment and there is an additional reduction in state aid of 3% in 13-14, it still meets the test. Orenda has shown it has the wherewithal to borrow these funds even if times are not as promising as desired. Orenda will likely testify about its contingency fund. A facility was sold when it created the first residential treatment facility and from that they garnered a profit of approximately a million dollars. Those funds have been used to aid school growth and a portion of that will be used as contingency fund should it be needed. The school has demonstrated that it does have the wherewithal to issue this debt and keep up with payments. Orenda will be using the direct-pay subsidy as part of the debt service.

Ted Christianson, Government Capital Securities, stated his company had provided financial advisory services for Orenda for the past three years. The key trigger for issuing these bonds was the QSCB program. Orenda was fortunate to receive an allocation. Over time, the QSCB saves \$4 million coming back from the federal government. Mr. Christianson introduced the team present: Richard Rickey, CEO and founder of Orenda and Margina Escobar, Orenda's Business Manager, Dan Rosenveare and Brian Garcia, Piper Jaffray are acting as underwriters on the transaction and Todd Brewer, Andrews & Kurth, bond counsel and Christian Merritt, an Associate of Government Capital Securities. He thanked Ms. Durso and Mr. Hernandez for their help and patience in working out the details, going through the stress tests scenarios.

Mr. Christianson stated that they were confident in the bond issue and the ability of the school to service the debt. The management team with Mr. Rickey and his business history is very, very strong. He is one of the first superintendents or charter school CEOs that operated his school as a business. Mr. Christianson stated the way the QSCB was set up with the paying agent, the Bank of Texas, is for the Bank to actually file for the rebate with the federal government, collect the rebate on Orenda's behalf and hold it to then combine with the school's portion of the payments and make the payments on the bonds. There is an intermediary that is actually responsible as a trustee for filing for those rebates and is helpful to the school.

Ms. Durso asked that someone discuss the enrollment situation in detail. Mr. Richard Rickey, CEO of Orenda Education, thanked the Board. Mr. Rickey explained his approach is different from most charter schools with regard to wait lists. Gateway College Prep started off offering services to only grades 9 and 10. Orenda offered that program along with another small program called Gateway Tech and it also had very small enrollment numbers. He provided enrollment handouts to the Board.

Dr. Walne asked why the college prep school was started, what need was identified, the Orenda vision, and about the tech school, too. Mr. Rickey stated he lived in Williamson County since 1988. He was a CEO for Hospital Corporation of America. Because his own children attended a variety of schools there, he knew a lot of the parents there and one of the things he grew to appreciate is that one-size school does not fit everyone. In Williamson County, there are some good and very large schools. In Williamson County, in a 5A school the graduating class size has grown to be about 600-700 students. Some kids get lost in that type of school environment. The only other option in Williamson County was private schools. As a hospital administrator, one of my residential treatment facilities was serviced by an ISD for eleven years. The medical staff would accompany me to meet

with the superintendent to try to see how to do things more effectively for the students. The charter school movement came along in 1995, and I researched it for a while. Eventually, we added residential campuses. From 2000, with the No Child Left Behind Act, the emphasis on charter schools began to change. Originally, the idea was to help at-risk students and there was a lot of leeway. After the Act, the differences were not that great between a public and charter school that had some major financial impact. For example, the students at the residential facility kids were being services from grades K-12, 80 children all different ages, with backgrounds from child welfare, children who on average have been to six different schools in a two year period, students never passing accountability. Over time, we saw that residential care alone was not a great business model.

Charter schools have no facility funding and that amounts to \$2,000 less per student. Office buildings have long term leases and it costs for renovation, plus development corporations margin and there is a 20-30 year commitment. The students would be in a building, with no real broad extra-curricular program especially if athletic programs are offered. Parents want a great academic program, but also want social development opportunities. Mr. Rickey said he had a relationship with someone who had land, ball fields, that could be leased. Orenda developed its program slowly over time and the next step was to add grades 6 through 11. The Orenda objective is K-12 and that is possible because the program was working.

Orenda has been able to add modules to the campus and over 400 applications were submitted beyond the returning students. Those applying students were sent a registration packet. Allowance was made for a 20% no-show, which seems to be norm. This application process represents our wait list. Everyone showed up so our classes, especially kindergarten was larger than promised to the families, but we waited for a couple of days to see who stayed because another charter school opened not too far from our location. Dr. Walne asked if Orenda was starting the school year with 612 students. Mr. Rickey said "yes."

Dr. Barnes asked a question about page 3 related to the Tech High School: It states that each campus will have a maximum student capacity of 150 students with an average daily attendance of a 100. She asked for some information concerning the ADA and wanted the number to be higher. Mr. Rickey said the business model states the square footage and the maximize capacity of 150 kids. It is fine with 100 students and 87 students showing up every day, but growth is anticipated. This is the school's third year. Orenda is a UIL member. Our students use the Georgetown Recreation Center for athletics. Providing those services onsite helps with attendance. Dr. Barnes said the number 150 did not concern her, but that there are still some issues in the accountability system with attendance. With 100 students it would be 66% which is not standard. Mr. Ricky said 150 students was the maximum. The percentage of students who actually come to school can impact your accountability. Dr. Barnes said she would like to see a stated goal of the tech piece being greater for the ADA income. Another question, on the next page of the residential treatment facility section, the discussion in the last three paragraphs about the annual school revenue for students who qualify for special education, who are in the residential facilities, can generate as much as \$16,000 per student per year compared to the regular pupil who might bring in \$6,500 a year and this results

in a high annual revenue for those per pupil costs. Then, there is information about the facility use paid up to a million dollars and there is a limit of 15% of the total school revenue, which is clear. The low operating cost combined with high revenue per student allows a positive fund balance at the residential facility each year. Then, the last statement in that section talks about the positive fund balance revenue from the residential schools will help cover the debt loan for the Gateway College Prep building project. From the perspective of educationally serving the students who are the special needs students in the residential facilities, assure me that they are getting absolutely quality education services.

Mr. Rickey said Orenda is accountable in a couple of ways. We run cost analysis on facilities to make certain the costs don't take away from the education quality for the students. It is nice to spread your revenue and cost in order to help somewhere else, but the product offered has to be good. Mr. Canby asked what the enrollment trend has been since the opening of the school for all grades. Mr. Rickey answered "625." For now, K-5 does have a waiting list. In February, we will have a lottery although that is not the desired standard. Mr. Canby asked what methodology was used to project \$7.7 million in revenues for the fiscal year beginning September 1, 2011, and what was your methodology and whether or not an outside consultant was used to vet your projections for revenues referencing the summary finances page for the charter school. The TEA website shows a refined ADA as 381 based off of the prior year and average daily attendance so walking forward, the ADA projection, the state revenue projections, how was that done, what methodologies were used, what outside resources did were used to vet your projections.

Mr. Rickey explained that the way the numbers were arrived at, the 850 number has been certified utilizing the TEA template. That means the extra revenue will be available for the extra teachers hired. All the methodology comes from TEA Charter School template. The residential side is more challenging because there is such a cap variation in what can happen. Mr. Canby asked about the FTEs for the special education was trending compared to prior years. Mr. Rickey stated in order to a child special education a lot of work is done and reliance is on a lot of information from places out of your control. These students often come from other treatment facilities where another school district served the student. We meet with the physician, the psychologist, diagnosticians, etc. and go through the process so services get to the student fast. Ms. Durso stated she had some numbers related to the FTEs that she could show him.

Mr. Canby asked what value was used to define the ADA. Mr. Rickey asked if it was actual. Mr. Canby said just total refined ADA for the charter school. Mr. Ricky said it was 797 for all campuses. Mr. Canby asked what the value was for daily weighted average attendance. Mr. Rickey asked Orenda's Business Manager, Margina Escobar, to come forward. She distributed handouts and stated the state aid was currently at 381, but last week notification arrived that it would be updated and reflect 850 soon.

Mr. Jack asked about the debt service coverage ratios presented for review. When calculating those ratios was the subsidy taken out of the debt service so that is revenues over net debt service. Mr. Christianson said the basic calculations of the debt service already account for the subsidy. The one

stress test that has something happening to the subsidy and what would happen in that case is there would be extraordinary redemption provision in the bonds. If the federal government somehow says they will not pay the subsidy any more, it would be almost impossible for that to happen nationwide because there would be consequences. He stated his firm has done more QSCBs in Texas than anyone else on the public and charter sides. These schools are counting on the subsidy and without it there is no way the schools can make their debt service payments. There is a redemption provision that says if the subsidy is not available, the bonds can be redeemed and refinance them to a tax-exempt structure. So, instead of doing a 15-year or 16-year QSCB that would turn into a 25- or 30-year tax-exempt to get the debt service down. Unfortunately, it is a way to get the debt service coverages back down.

Ms. Durso stated to presume not that the federal government does not pay the subsidy to everyone, but that for whatever reason, for example, an offset payroll tax payment in dispute and therefore results in an offset. The assumption would be that the offset would not trigger the extraordinary redemption. Mr. Christianson said it would not. Ms. Durso asked how the debt service payment would be covered if during a short-term situation the subsidy was not available.

Dan Rosenveare, Piper Jaffray, stated that stress test was run last night and it did dip slightly below 1.2 times, but still above 1.1 times. If you net out \$250,000 a year that is expected from the federal government, we are still above the 1.1 times requirement in that scenario. Mr. Christianson added that the school was fortunate to have a large fund balance to use if necessary. Mr. Jack stated the QSCB program offers a lot of benefits, but there are certain things that can trip up and cause disruptions. Mr. Christianson said getting through the tax attorneys at Andrews Kurth can be very difficult because at the end they are going to have to opine that the federal tax provisions were met.

Mr. Jack asked what rating was expected and Mr. Christianson answered “investment grade.”

Mr. Jack moved to approve the request for financing, including adopting a resolution authorizing the issuance of Texas Public Finance Authority Charter School Finance School Finance Corporation Education Revenue Bonds (Orenda Education), Series 2010A, Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Orenda Education) Series 2011B, and Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Orenda Education) Series 2011Q (Qualified School Construction Bonds – Direct Pay) in an amount not to exceed \$9.5 million in the aggregate, approving a Trust Indenture, Loan Agreement, Public Hearing, and resolving other matters in connection therewith. Mr. Canby seconded. The motion passed unanimously.

The Board discussed future meeting plans and concluded they would meet in January to discuss the proposed grant application.

Item 6. Adjourn.

The meeting adjourned at 11:18 a.m.

The foregoing minutes were approved and passed by the Board of Directors on October 21, 2011.



Paul Jack
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A



Open Meeting Archive

Agency Name: Texas Public Finance Authority

Date of Meeting: 09/09/2011

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: 09/01/2011

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
FRIDAY, September 9, 2011 -- 10:00 A.M.
CAPITOL EXTENSION HEARING ROOM E2.028
AUSTIN, TEXAS 78701

1. Call to order.
2. Approve the minutes of the December 10, 2010 Board meeting.
3. Terms of service for Thomas Canby and Paul Jack.
4. Consideration and possible action on Texas Credit Enhancement Program grant application issuance and staff report on fund balance.
5. Consideration, discussion, and possible action on a Request for Financing for Orenda Education and adoption of a resolution authorizing issuance of Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Orenda Education) Series 2011A, Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Orenda Education), Series 2011B and Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Orenda Education) Series 2011Q (Qualified School Construction

Bonds & Direct Pay) in an amount not to exceed \$9,500,000, and the execution of a Loan Agreement, a Trust Indenture and other documents and resolving other matters in connection therewith.

6. Executive Session:

Pursuant to Texas Government 551.071(2), the Board may convene in closed session at any time during this meeting to obtain legal advice from its counsel concerning any matter listed on this agenda, in which the duty of its attorney under the Texas Disciplinary Rules of Professional Conduct conflicts with Texas Government Code, chapter 551.

Reconvene Open Meeting (after Executive Session):

The open meeting will be reconvened for final action of the Board concerning matters deliberated in the Closed Meeting, if such action is required.

7. Discussion of possible future meeting dates.

8. Adjourn.

Persons with disabilities, who have special communication or other needs, who are planning to attend the meeting should contact Paula Hatfield 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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