

Texas Public Finance Authority

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Susan K. Durso
Interim Executive Director

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

December 10, 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., Friday, December 10, 2010, Capitol Extension Hearing Room E2.028, Austin, Texas. Present were: Dr. Marina Walne, Chair; 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: Robert Nickell and Debi Jones, Morgan Keegan; John Barton, Legislative Budget Board; Tom Sage, Vinson & Elkins; and Dr. Somer Tarim and Umit Pecan, Cosmos.

Item 1. Call to order.

Dr. Walne called the meeting to order at 10:14 a.m.

Item 2. Approval of minutes of the July 7, 2010 Board meeting.

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

Item 3. Consideration, discussion, and possible action on a Request for Financing for Cosmos Foundation, Inc., including adopting a resolution authorizing issuance of Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Cosmos Foundation, Inc.) Series 2011A, Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds

(Cosmos Foundation) Series 2011B and Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Cosmos Foundation, Inc.) (Qualified School Construction Bonds – Direct Pay) Series 2011 Q, in an amount not to exceed \$80,000,000 in the aggregate approving a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

Mr. Schulman recused himself from the discussion and left the room. Mr. Burns stated that Cosmos had been to market on another request in April that had a triple B rating from Standard and Poors. The request for today will likely be an amount not to exceed \$90 million. The sources and uses amount included in the electronic packets provided to Board members showed \$86 million. Mr. Burns stated representatives from the school were available to answer questions, including questions about preliminary results of the school's annual financial report.

Dr. Soner Tarim, Cosmos, thanked the Board for its prior approval of \$90 million, the largest amount ever issued to a charter organization in Texas. He stated Cosmos had been successful in the execution of all of its projects and spent most of the money establishing eight new schools during the past summer. Four of the schools are located in Houston, one in Dallas, one in Garland, one in Odessa and one in San Antonio. Some of the projects were brand new school buildings and some were turning old big-box store buildings into school facilities. Dr. Walne asked when the Board had approved that request. Dr. Tarim stated, and Mr. Sage affirmed, that the sale was May 5, 2010. Dr. Walne asked if all that work was completed since May. Dr. Tarim stated that some of the work was begun earlier with bridge loans from banks.

Dr. Tarim said the current request was for four new school buildings and multiple remodeling or extensions of existing schools. Dr. Tarim stated that currently Cosmos has 33 schools throughout Texas, serving more than 16,000 students. Cosmos also has more than 21,000 students on waiting lists--more than 600 students per school building.

Dr. Walne asked if Cosmos was the largest charter management organization in the State. Dr. Tarim answered 'yes, the largest charter network in Texas, as far as the numbers are concerned.' Another program that has more campuses, but fewer students per campus. Dr. Walne asked what percent of the 33 schools are exemplary or recognized. Dr. Tarim said that last year 25 schools received ratings and of those schools, 16 were exemplary, seven recognized and two are acceptable. Dr. Walne asked if the two acceptable schools were new. Dr. Tarim said the two schools were relatively new and Cosmos's goal is to make both schools recognized and then exemplary.

Dr. Walne asked if there were other questions. Mr. Jack said he wanted to confirm that the school was prepared for the federal requirements in terms of the Davis Bacon Act compliance regarding the expenditure of funds since the proposed bonds included Qualified School Construction Bonds. Dr. Tarim said 'yes and all the contractors had signed the Act and it was being closely monitored.' Mr. Jack asked when the Cosmos Board was expected to accept the audit. Dr. Tarim said as soon as the audit is finalized, the Board will meet to approve it.

Mr. Pecen, Chief Financial Officer, Cosmos, stated the audit was completed and would be received by Monday or Tuesday. It will go to the Board after that.

Dr. Barnes said on the chart the Harmony School of Science, Austin, reads “pending,” but explanation says “returned.” She asked what it meant. Dr. Tarim explained that every year Cosmos asks Texas Education Agency for new charters. Last year, Cosmos had 15 charters. Because it reached a cap, the Commissioner asked Cosmos to return four or five charters, if possible and in return, the Commissioners said Cosmos would be given a waiver to open a charter school anywhere and anytime. Cosmos will have one of the two waivers in the State of Texas.

Mr. Jacks asked about the pro forma showing \$86 million total expenses in 2010, with depreciation about \$89 million in expenses and the August 31, 2010 income statement showing expenses around \$100 million and wanted to understand that discrepancy. Ms. Durso directed the Board’s attention to the handout. Dr. Tarim said the pro forma reflected Cosmos internal number and the auditor has made adjustments in 2009 and 2010 and generally the reasons are some capitalization interest and expenses as assets or vice versa, and some numbers not adjusted in the past have been corrected. Dr. Tarim said the numbers were conservative and do not include expansion numbers.

Dr. Walne asked about Standard and Poors rating document. Under the credit rating factors it mentions adequate to weak operating liquidity position, but then offsetting to that weakness is adequate coverage levels based on current year enrollment. She asked for elaboration on the confidence factor that the cash flow will be great in order to deal with the 14% debt burden of the organization. Dr. Walne stated that given the waiting list there was plenty of enrollment. She asked how the liquidity and cash flow of the organization was. Dr. Tarim stated that as Mr. Pecen had mentioned the numbers are conservative and that when schools from recent years add grade levels there is enough to service the debt.

Dr. Walne asked given the current fiscal crisis in the Legislature or the State, if the state were to reduce the ADA for each student by a modest amount, would Cosmos have enough reserves to weather that storm. Dr. Tarim said that Cosmos receives \$1,200 per student and some say \$800 per student per year, which is less money than traditional districts receive, and is expecting a 10% cut although some anticipate a 5% cut. The bonds will be sold as fixed rate debt using a public offering document.

Dr. Barnes moved to accept staff’s recommendation to approve Cosmos financing request as presented, adopt a resolution authorizing the issuance of TPFA CSFC Education Revenue Bonds on behalf of Cosmos Foundation, Inc. in one or more series or subseries whether tax-exempt or taxable including direct pay, taxable QSCB all in an aggregate par amount not to exceed \$90 million, approve a trust indenture, loan agreement, public hearing, and delegate authority to staff to undertake other necessary related actions to effectuate the sale. Mr. Jack seconded. The motion passed unanimously.

Item 4. Update on status of approved A. W. Brown Financing Request for sale of bonds in 2011, including taking action, if necessary, to delegate authority to staff to make non-substantive amendments to approved financing documents to reflect changes as a result of delay in sale.

Ms. Durso stated the Board approved a financing request from A. W. Brown at its July 7 meeting and since that time, the notice of intent to issue debt was submitted to the Texas Bond Review Board. The Bond Review Board did not take action and by not taking action, the application of A. W. Brown expired. Since that time, A. W. Brown has been able to develop some information that the Bond Review Board requested, so A. W. Brown is now requesting another application be submitted. Ms. Durso asked that the Board delegate authority to staff so that any necessary changes to the financing documents can be made as a result of the delay. Mr. Sage Bond Counsel from Andrews & Kurth, made himself available to answer any questions.

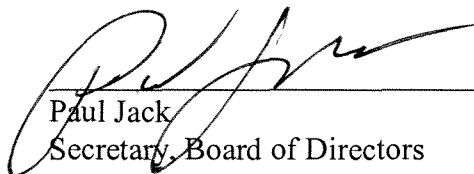
In July, A. W. Brown proposed a QSCB transaction to be placed with Regions Bank. The Board granted approval and the current transaction is essentially the same one. There will be an adjustment in rates. Mr. Sage said the numbers have gone up, including the QSCB subsidy amount. It is a floating rate transaction. The school would like to finance an auditorium and performing arts center. It is not a revenue producing project, but the school has the financial wherewithal to cover it. The Bond Review Board had concerns with charter schools during the summer, but is now comfortable with A. W. Brown. Mr. Jack asked about the size and Mr. Sage answered \$5.2 million.

Staff recommended that the Board authorize staff to make necessary changes to the transaction documents, ratify the Board's prior approval and permit A. W. Brown's request to go forward. Mr. Schulman asked if the motion would be 2 parts, one to ratify approval, and secondly, give staff the authority to make the necessary adjustments. Ms. Durso said yes. Mr. Schulman moved to accept staff's recommendation. Mr. Jack seconded. The motion passed unanimously.

Item 5. Adjourn.

The meeting adjourned at 10:45 a.m.

The foregoing minutes were approved and passed by the Board of Directors on August 19, 2011.


Paul Jack
Secretary, Board of Directors

ATTACHMENT: Posting Notice - Exhibit A



Current Meeting Notices

Agency Name: Texas Public Finance Authority

Date of Meeting: 12/10/2010

Time of Meeting: 10:00 AM (Local Time)

Board: Texas Public Finance Authority Charter School Finance Corporation

Status: Active

Street Location: Capitol Extension Hearing Room E2.028

City Location: Austin

Meeting State: TX

TRD ID: 2010009043

Submit Date: 12/02/2010

Emergency Meeting?: No

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.

Agenda: TEXAS PUBLIC FINANCE AUTHORITY
CHARTER SCHOOL FINANCE CORPORATION
FRIDAY, DECEMBER 10, 2010 -- 10:00 A.M.
CAPITOL EXTENSION HEARING ROOM E2.028
AUSTIN, TEXAS 78701

1. Call to order.
2. Approve the minutes of the July 7, 2010 Board meeting.
3. Consideration, discussion, and possible action on a Request for Financing for Cosmos Foundation, Inc., including adopting a resolution authorizing issuance of Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Cosmos Foundation, Inc.) Series 2011A, Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Cosmos Foundation) Series 2011B and Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Cosmos Foundation, Inc.) (Qualified School Construction Bonds & Direct Pay) Series 2011 Q,

in an amount not to exceed \$80,000,000 in the aggregate approving a Trust Indenture, Loan Agreement, Public Hearing, and other related matters.

4. Update on status of approved A. W. Brown Financing Request for sale of bonds in 2011, including taking action, if necessary, to delegate authority to staff to make non-substantive amendments to approved financing documents to reflect changes as a result of delay in sale.

5. 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

6. 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 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.

For comments and or questions about this website please contact *Texas Register*
register@sos.state.tx.us