

**Meeting Minutes – Somerset Academy, Inc.
dba Brooks Academy of Science and Engineering (BASE)**

**February 23, 2015
5:51 p.m.**

A meeting of the Board of Directors of Somerset Academy, Inc. was held on February 23, 2015, at Brooks Academy of Science and Engineering, 3803 Lyster Road, San Antonio, TX 78235

1. Board Members present: David Concepcion, Raul L. Martinez, Jr., Ms. Lourdes Isla, George B. Ozuna and Louis J. Marin.

Brooks Academy staff present: Ixchell Gonzalez, Lisa Ortiz, and others.
Academica SouthWest staff present: George Pedraza, Erin Privratsky, Simon G. Salas, and Anita Vela-Johnson. Academica Staff Present, Daniel Diaz.

The meeting was called to order by Louis J. Marin at 5:51 p.m. with an established quorum.

2. Public Comment

- Teacher, Ismael Muniz, spoke regarding the wrestling program noting the team had won the title of Regional Champion. This is the school's second District Championship.
- Anita Fernandez, Director of College and Career Readiness at Brooks Academy spoke about Isaiah Murray, who is a Senior at Brooks Academy and is actually the first Brooks Academy student in the school's history to receive the Coca Cola Scholars Recognition award.

3. Presentations, Discussion and Possible Action

Consent Agenda Items:

The following items will only be considered individually if requested by a member of the Board to be moved for consideration as an individual item.

- 4.1 Presentation, discussion and possible action regarding minutes of the board meeting held on January 23, 2015.

A motion to approve the minutes of the Board meeting held January 23, 2015 was made by George Ozuna and seconded by Louis Marin. AYE: David Concepcion, Raul Martinez, Lourdes Isla, George Ozuna, Louis Marin. NAY: None. ABSTAIN: None. Motion carries.

Individual Agenda Items:

- 4.2 Presentation, discussion and possible action regarding facilities planning and related financing options for next school year for Brooks Academy of Science and Engineering, Brooks Estrella Academy, and Brooks International Studies Academy.

Simon Salas stated that the first part of the presentation pertained to a request that had been made at the last meeting for a description of what is pending in terms of improvements or modifications to campuses in consideration of potential expansion opportunities. That information was provided to the Board, broken down into 5 different points.

1. Current Space Needs/Potential Cost

Based on discussions over recent months, and RFP's requested, additional space required to fill an immediate need for the Brooks Academy main campus appears to be 20,000-25,000 sq. to accommodate lab facilities and other ancillary space needs. Potential cost would be \$4-5 million dollars including furniture, fixtures, and equipment.

Daniel Diaz asked how many students could be housed.

Simon Salas stated that in earlier discussions they were looking at a space that was between 60,000-70,000 sq. feet and it was in that sized building they thought they would add an additional 500-700 students.

Those discussions have changed and at this point they are talking about upgrading their facilities so that they have sufficient labs to meet qualifications under STEM certification.

There is no longer an anticipation of a great number of students because they are trying to utilize their space in a way that provides the program they are required to provide.

The school may acquire an additional 100 students, but that is all. They are no longer talking about expansion, but upgrading. Acquiring additional students is not the purpose of this facility.

2. Modifications to Brooks Estrella Academy-

Modifications are required to add more classrooms and to upgrade other facilities needs. Anticipated costs for those modifications are in

the neighborhood of \$40,000-\$60,000 in order to meet city code requirements.

3. Modifications to Brooks International Studies Academy-

Anticipated costs are estimated at \$25,000-\$50,000 depending on city code requirements. Modifications would include renovating upstairs bathrooms in order to make them ADA compliant, as are the first floor bathrooms.

4. Purchase Land and Building Occupied by the main campus, which are the 10 acres occupied by Building I and Building II.

Based on information provided, a range of \$12-15 million dollars was taken as a potential cost to buy the current buildings and land which total to about 10 acres for both Buildings.

5. Necessity of meeting next year's FF&E needs based on a revised technology plan, as well as items they know are necessary to move forward to complement existing programs.

Estimated between \$300,000-\$350,000 to support existing campuses and their furniture, fixture and equipment needs for the upcoming school year.

George Pedraza stated the second part of the presentation relates in particular to the actions that were asked in the January 23, 2015 meeting namely to explore financing options for the potential acquisition of the facility of the main campus.

At that time, they were working with Jefferson Bank exploring options for a commercial loan. An appraisal was prepared and distributed to the Board members. The appraisal came out to about \$12 million. In addition, information was also received on bond financing. That information was also distributed to the Board from RBC Capital Markets. There were two different scenarios presented: (1) bond financing assuming they were at an investment grade rating of a BBB- and sell the bonds that way; and (2) if they had that investment grade rating and were also be able to obtain the Permanent School Fund guarantee which is available through the State of Texas through the TEA. The benefit of that is that it helps to lower the interest rate.

George Pedraza stated they are talking about 2 different financings. In the case of a bond financing, it is longer term. You can go as far as about 30 years. You can do 100% financing. One of the things that distinguishes bond financing from bank financing is that in bank

financing, the school would be required to come up with 15% in equity, and in bond financing you do not have to do that.

Daniel Diaz asked George to restate what the percentage rate was.

George Pedraza stated it was 15%-20%. Jefferson Bank originally said it would be 20%, but then said they might be able to get it with 15%. Either way, the school would need to come up with about 15% in order to borrow the remaining 85% for the acquisition. In bond financing, it is 100% financing. You don't have to worry about coming up with equity.

George Pedraza directed the Board back to Mr. Salas' presentation wherein he noted the need for a 20,000-25,000 sq. foot modular building, which was brought before the Board in the past. Again, it would be somewhere between \$4-5 million for that. Depending on the timing of a bond financing, you could acquire the two existing buildings and potentially borrow for that building as well, but keep in mind they are trying to build that building by the fall, and so bond financing will take a while to complete. They are not easy transactions to do so it might take 4-6 months.

George Pedraza stated in summary, they were exploring bond financing which included long term financing, 30-year financing, lower tax rates, and the potential to use the Permanent School Fund guarantee from the TEA which would lower their overall borrowing costs. It is not a given, that they can get it, but they would have the opportunity assuming the school would achieve an investment grade rating which is a BBB-. They could sell bonds without the permanent school fund guarantee, but the guarantee would be a benefit.

The other option is commercial bank financing. With Jefferson Bank, or any other commercial bank.

David Concepcion asked what they could do to look into the bond financing.

George Pedraza stated that typically it involves the Board taking action to engage a financial advisor, and that financial advisor would then work closely with the Board to structure bond financing with a plan of sale within 4-6 months, or sooner, depending on the structure. An important piece of that would be preparing the school for a Standard and Poor's Bond Rating, something the school does not have currently. There is a lot of information that goes into trying to procure an investment grade bond rating. After a bond rating is procured, an application would be made to the TEA for a Permanent School Fund guarantee. A document called a Preliminary Official

Statement would be drawn up that would then be sent out to potential investors who would buy the bonds, and then the financial advisor would work with bond underwriting firms who would be the ones to raise the capital, or raise the bonds for the school to then be able to acquire the buildings, potentially borrow for a modular building, or other needs.

So, the Board would need to take action to ask them to work with financial advisor firms to get the process started.

Raul Martinez asked if he could go ahead and make a motion to go explore the options with a bond company.

Louis Marin said they could entertain the motion and if there is a second they could do that and then if there is additional discussion, they could do that. Robert's Rules of Order would allow you to go ahead and make the motion. So, if you want to go ahead and make the motion, go ahead.

Raul Martinez asked if he could ask a question without following up on that motion.

Louis Marin stated no, that a second was needed because the motion they would vote on, if they don't like that motion, if it needed to be improved, it would need to go dead.

George Ozuna withdrew his motion pending the additional question.

David Concepcion asked if there was a state or regional list of bond financing agencies they could look at and asked if there was a need to take the bond to the voters since it is a public governmental agency.

George Pedraza explained that what was unique about charter schools is that they do not have a tax base, so in this case as a 501c3 they would be pledging that the revenues of the school would be sufficient to cover the bonds should you issue bonds going forward. So it is seen more as a revenue bond deal verses a general obligation bond. The difference being a general obligation bond has property taxes that support it, and a revenue bond is solely reliant in this case on the revenues of the school. So, there is no need for an election. And secondly, there are lists of reputable firms for the Board to consider. I know some and I am sure in Florida there are some as well to be brought to the Board for consideration.

Legal counsel stated they needed to be Texas licensed.

Raul L. Martinez, Jr. stated he would like to restate his motion to explore options with a bond company.

Mr. Concepcion seconded the motion.

Louis Marin stated that he was not opposed to a bond issue; however, due diligence was necessary along with seeking advice from an independent financial advisor. He also asked for clarification regarding bond issuance and ownership changing to the school.

George Pedraza stated the ownership would then change to the school.

Counsel confirmed ownership would go to the school.

George Pedraza stated that in either scenario the number one reason for doing it would be so that the school would become the owner of the facilities. It is advantages not just for ownership sake, but all the numbers they had looked at financially it makes a lot of sense for the schools to be the owners of the buildings verses the current situation of leasing. From a cash flow standpoint it would be advantages for the school to own the bonds and over time to build up its assets to liability ratio as well.

Louis Marin asked if Mr. Pedraza could expand on that. Specifically, what would be gained by owning the buildings outright as opposed to paying the lease and paying on that debt.

George Pedraza stated that by owning it: (1) one of the 19 or 21 FIRST financial measures that are assessed, one of them relates to assets to liability ratio, if you consider school districts, they are large and they own a lot of buildings and they can count those buildings as assets on their books. For charter schools, most of them don't own their buildings. All they can count as assets is the cash in hand. Some charters do a better job managing that, others do not, so ultimately adding these buildings onto the books of the school will help to increase the asset base of the school in general so it won't just be cash in hand, but also the worth of the buildings going forward as well which is a big plus.

Anita Vela-Johnson stated you would also have the liability too.

George Pedraza agreed you would also have the liability.

Anita Vela-Johnson stated over time you would see the amortization and while depreciation would take place, the asset value would stay the same.

Joe Hoffer stated that they might be upside down the first year, or two, or three, and then it would increase.

Daniel Diaz stated the Board doesn't lose anything – there is no commitment being asked here other than just exploring options. Bond financing could be a very attractive option and the Board should have that option available to them. This doesn't exclude the traditional financing options.

Louis Marin asked if anyone else had any concerns or comments.

Lourdes Isla stated she had no concerns, or comments.

Raul Martinez asked when it was appropriate to amend the current motion, before, or after, the vote.

Joe Hoffer stated it was before the vote.

There were questions and discussion about how to move forward with the motion.

George Ozuna asked if they should be moving forward with a management team, or with a financial advisor.

George Pedraza stated they would be working closely with a financial advisor licensed in Texas.

Mr. Hoffer stated that if they were going to issue bonds guaranteed by the State of Texas they would require a Texas licensed municipal, or financial advisor with the Texas State Board of Securities. It doesn't mean you don't have a co-financial advisor situation since you have Somerset in Florida but someone will need to sign off and give advice in a fiduciary capacity that is licensed in Texas as to the properness of the financing package in Texas and preferably someone who is familiar with the PFS guarantee process.

George Ozuna asked if the motion that was on the table included a financial advisor.

Mr. Hoffer stated that one of the questions he asked the Board was clarification. Raul, clarification on your motion was to proceed with

engaging, or exploring the bond package. The clarification is, did you mean a financial advisor.

Raul Martinez stated it was to ask Academica to explore and come back and share information, not to do anything, just to move forward in getting information and making sure that whatever they do decide to do is within the law and regulations of Texas. David Concepcion seconded the motion.

Louis Marin stated they have a motion and a second and would do a roll call vote; AYE: David Concepcion, Raul Martinez, Lourdes Isla, George Ozuna, and Louis Marin. Motion carries.

George Pedraza stated that financial advisors typically don't get paid until and unless a bond financing actually occurs and underwriters and attorneys will be involved as part of the due diligence.

Louis Marin asked for a project timeline to be presented to the Board as soon as possible.

4.3 Presentation, discussion and possible action regarding Request for Qualifications for modular design building firms

Simon Salas stated that an RFP process had been started for modular design building firms and a due diligence review was undertaken for ICON Construction. Their work is prefabricated, preapproved, and done one project at a time. ICON can complete construction by fall of this year if notified within the next 2 weeks of Board approval.

Louis Marin asked if the project was subject to financing.

Simon Salas stated it was subject to financing but that a bridge loan could be taken out with a local vendor, which would then be taken out by a bond package. You would not need to wait for a bond package to be finalized.

Daniel Diaz asked if Jefferson Bank would be willing to do the financing for the project.

George Pedraza stated he had spoken to Jefferson Bank today and they had questions, but there were other financial institutions he was reaching out to as well.

Daniel Diaz stated there is a first mortgage on these properties of around \$5.6 million, so if you take \$5.6 million and add another \$5 million, then you are at \$10.6 million in debt and you have an

appraisal of \$12 million or a little less, it is difficult to move forward from a financing standpoint. Bond financing should be explored.

George Ozuna stated that STEM accreditation is in jeopardy if they don't do the labs.

Louis Marin stated all options for financing should be on the table.

A motion was made by George Ozuna to charge the Chairman of the Local Board to negotiate the contract for the modular buildings for an amount not to exceed \$5 million and seconded by Lourdes Isla. David Concepcion asked to amend the motion so that it is subject to financing.

Mr. Hoffer asked if Mr. Ozuna wished to amend his motion.

George Ozuna stated that he did wish to amend his motion to add subject to financing.

David Concepcion asked if they would be losing any respect from the agency by adding in all of these caveats, or were there other vendors they should be looking at.

George Pedraza stated that the other vendors stated they could do certain things but when it came down to TEA requirements those were gray areas so they aired on the side of not going with that firm. Due diligence was performed on other vendors.

AYES: David Concepcion, Raul Martinez, Lourdes Isla, George Ozuna, Louis Marin. NAY: None. ABSTAIN: None. Motion carries.

4.4 Presentation, discussion and possible action regarding scheduling of corporate and local board meetings for the 2014-2015 school year

Louis Marin stated the Texas Local School Board met last Thursday and they agreed that Corporate Board Meetings would be on the first Monday of every month at 6:00 p.m.

A motion to schedule Corporate Board Meetings for the first Monday of every month at 6:00 p.m. was made by David Concepcion and was seconded by Lourdes Isla. AYE: David Concepcion, Raul Martinez, Lourdes Isla, George Ozuna, Louis Marin NAY: None. ABSTAIN: None. Motion carries.

5.0 School Reports

Ixchell Gonzalez discussed current events occurring at the three campuses and the ongoing

6.0 Academica SouthWest Report

Anita Vela-Johnson stated financials from December and January were included in the Board packet. Ms. Vela-Johnson asked if work at Estrella and International Studies come out of this year's budget, and how that would impact net assets.

Louis Marin asked if individual projects could be brought to the Board when they are ready.

Simon Salas responded that they could.

Anita Vela-Johnson stated that at the next Board meeting they would do a budget amendment to include some of the expenses mentioned by Simon Salas and George Pedraza as those would come out of the budget and not necessarily be part of the financing.

Raul Martinez asked David Concepcion if he knew when the next Corporate Board Meeting was scheduled. The next meeting is March 13 in Miami. The Corporate Board is scheduled in Texas for June 15, but it needs to be rescheduled.

7.0 Adjournment

George Ozuna moved to adjourn the meeting with a second by Lourdes Isla. AYE: David Concepcion, Raul Martinez, Lourdes Isla, George Ozuna, Louis Marin. NAY: None. ABSTAIN: None. Motion carries.

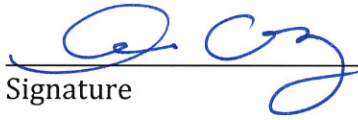
The meeting was adjourned at 7:05 PM..

**Certification of Meeting Minutes of the Board of Somerset Academy, Inc.
Dba Brooks Academy of Science and Engineering (BASE)**

The preceding minutes of the Board meeting of Somerset Academy, Inc. dba Brooks Academy of Science and Engineering (BASE) held on February 23, 2015 were approved at a meeting of the Board held on March 30, 2015, at 6:00 PM.

The undersigned hereby certifies that he/she is an Officer and/or Director of Somerset Academy, Inc., a not-for-profit corporation organized and existing under the laws of the State of Florida, and doing business in the State of Texas pursuant to a contract with the State Board of Education and the laws of the State of Texas, that the above is a true and correct copy of the meeting minutes of the Board of Directors of said corporation.

Ana C. Diaz, ~~President or Vice Chair~~
Printed Name *secretary*

, ~~President or Vice Chair~~
Signature *secretary*

Date Signed: 9/28/2015