

CALIFORNIA SCHOOL FINANCE AUTHORITY
EDUCATIONAL FACILITIES REVENUE BONDS
(GRANADA HILLS CHARTER HIGH), SERIES 2010C
QUALIFIED ZONE ACADEMY BONDS
(DIRECT SUBSIDY BONDS)

EXECUTIVE SUMMARY

RESOLUTION 10-16

Borrower:	Granada Hills Charter High School (the "Borrower")
Loan Amount:	Not to exceed \$4,000,000
Expected Issuance:	July 15, 2010
Project:	Proceeds of the Bonds will be used to finance the acquisition, construction, improvement and equipping of the New Media Academy. A portion of the Bond proceeds may also be used to finance working capital needs.
Bond Type:	Revenue Bond, Qualified Zone Academy Bonds (Direct Subsidy) (the "Bonds")
Credit Enhancement:	East-West Bank direct pay letter of credit "wrapped" by Federal Home Loan Bank of San Francisco
Expected Rating(s):	Aaa/AAA
Structure:	Term Bond maturing in approximately ten years
Sale Method:	Negotiated Public Offering
Senior Manager:	RBC Capital Markets, Inc.
Bond and Disclosure Counsel:	Orrick Herrington & Sutcliffe LLP

Background

Federal tax legislation enacted in 1997 (Section 226 of H.R. 2014 The Taxpayer Relief Act of 1997, Section 1397E of the *Internal Revenue Code*) allows for certain schools, known as Qualified Zone Academies, to finance the equipping and/or renovating of school facilities, developing course materials and training teachers on an interest-free basis through the allocation of tax credits (through the issuance of Qualified Zone Academy Bonds or QZAB). Granada Hills Charter High School (the "Borrower") was awarded \$3.5 million of QZAB borrowing authority by the California Department of Education. The Borrower may elect to take up to an additional \$500,000 taxable loan to pay for cost of issuance associated with the bond transaction.

I. Structure

CSFA will issue the Bonds, the proceeds of which will be loaned to the Borrower pursuant to a Loan Agreement by and between CSFA and the Borrower, through a negotiated, public offering. The Bonds will be sold as taxable obligations with a single “bullet” maturity in 2020. Prior to this date, the Bonds will pay semi-annual interest only. CSFA, acting at the request of the Borrower, will elect for the Department of the Treasury to transfer to the trustee on a periodic basis a federal subsidy payment (based on current law) equal to the lesser of (i) 100% of the interest payable on the Bonds; or (ii) the interest that would have been payable on the Bonds if it were computed based on the rate applicable for qualified tax credit bonds in effect at the time of sale.

II. Security and Source of Payment

Semi-annual interest and principal, as applicable, will be paid by East-West Bank under the terms of an irrevocable, direct pay letter of credit. The letter of credit will be further “wrapped” by the Federal Home Loan Bank of San Francisco by means of a standby letter of credit and is expected to result in a “AAA”-rating for the transaction. Ultimately, the Borrower will be responsible for reimbursing all payments made by East-West Bank as well as any associated letter of credit fees (CSFA is obligated to pay the principal of, premium, if any, and interest on the Bonds and “Credit Provider Reimbursement Obligations” solely from the payments received from the Borrower under the Loan Agreement). In addition, Borrower loan payments will also fund annual “sinking fund” deposits into an account held by the bond trustee (BNY Mellon) in advance of the final stated maturity of the Bonds. Such deposit amounts, including interest earnings thereon, will be sufficient to ensure that adequate funds are on hand to reimburse City National Bank for the repayment of the principal payment due upon the final stated maturity of the Bonds in 2020. The Borrower will utilize the State Controller’s Intercept Mechanism (Section 17199.4, Education Code) to transfer a portion of its annual state allotment of revenue limit funds (i.e., the general purpose entitlement component of its annual principal apportionment). The State Controller will be provided with a schedule at closing detailing funds to be intercepted and forwarded to the bond trustee on a periodic basis. Such amounts will cover the aforementioned interest payments, letter of credit fees, and required sinking fund deposits and will be transferred by the trustee to East-West Bank. Federal subsidy payments will be made by the Department of the Treasury to the trustee. Certain excess amounts may be periodically transferred to the Borrower. A flow of funds has been attached as Exhibit A.

III. The Borrower

Granada Hills Charter High School (the “Borrower”) is a California public charter school established on July 1, 2003 under the California Charter School Law (AB 544). The Borrower’s primary purpose is the operation of a charter school that serves 4,000 students, Grades 9 - 12. The Borrower currently operates a single high school campus.

IV. Preliminary Sources and Uses

Sources	
Qualified School Construction Bonds	\$3,500,000
Borrower Equity	\$73,017
Total Sources	\$3,573,017

Uses	
Project Fund	\$3,409,483
Costs of Issuance	\$143,017
Credit Enhancement Fees	\$20,517
Total Uses	\$3,573,017

V. The Project

The Borrower will use the proceeds from the sale of the Bonds to finance one project: a 5,000 square foot on-campus facility for new media, broadcasting, and film production for the GHCHS New Media Academy. The Project's anticipated completion date is December 2011. Students will take classes in the state-of-the-art facility and have access to technology with which to learn and apply 21st century skills within a rigorous interdisciplinary curriculum. With the new facility the current 9th – 12th grade 200-student Academy population will expand to 600 with 4 media teachers and 8 core curriculum teachers.

Currently, the New Media Academy/Humanitas Program operates in a number of disparate classrooms on the school campus. This project will bring media and core curriculum teachers together in one facility. The facility will have the flexibility to provide an assembly area that will seat as many as 200 for media productions or accommodate a flowing area for media exhibits. Also included are six classrooms of 700-900 square feet and sound-proofed spaces of 500 square feet for recording, editing, and broadcasting. The facility will also house ADA-compliant restrooms for faculty and students. Sufficient and accessible electrical receptacles and data drops, a ceiling-mounted integrated projection system, and fire alarm and PA systems are included in the design.

The New Media Academy will prepare students for careers in areas of new media, such as film making, digital imaging, and animation through a Humanitas based program and a personalized small learning community environment. Classes in the Humanitas Program stress critical reading, writing, and thinking in a project-based, interdisciplinary approach to learning that incorporates fine art, digital media, and film production with the liberal arts curriculum required for post-secondary options in academic or career choices. The teachers involved are committed to team teaching and collaboration to integrate content from a variety of subject areas. Consequently, most of the class activities are student centered and initiated.

A portion of the loan proceeds may also be used to finance the Borrower's working capital needs related to the approved QZAB allocation, such as teacher training expenditures.

VI. Borrower Financial Data

Attached as Exhibit B is a schedule of historic and projected revenues for the Borrower.

VII. Due Diligence Undertaken to Date

No information was disclosed to question the financial viability or legal integrity of the Borrower. Standard opinions of counsel (i.e., that the borrowing entity has been duly organized, is in good standing, has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

VIII. Staff Recommendation

Staff recommends CSFA approve Resolution Number 10-16 in an amount not to exceed \$4,000,000 for Granada Hills Charter School subject to final financing terms acceptable to CSFA.

Exhibit B
Selected Financial Data

Other Indebtedness

The Borrower has several external lease arrangements to fund a variety of equipment, including computers and copy machines. The amount payable as of June 30, 2009 was \$127,070.

Fiscal Health

The Borrower is in strong fiscal standing. As of April 30, 2010, equity and cash are as follows:

Cash in Los Angeles County Office of Education	\$ 1,739,089
Cash in Bank – California Credit Union	2,594,486
Wells Fargo Investment Portfolio	4,377,024
Union Bank of California Investment Portfolio	1,605,554
Other Current Assets	33,477
Cash receivables (Federal Grants)	<u>222,019</u>
Total equity and cash	\$ 10,571,649

HISTORICAL AND PROJECTED FINANCIALS

	2008-2009 Audited	2009-2010 Projected	2010-2011 Projected	2011-2012 Projected	2012-2013 Projected	2013-2014 Projected	2014-2015 Projected
Revenues							
Principal Apportionment – Charter School Block Grant	21,022,269	17,364,604	17,113,362	16,953,861	17,502,266	18,158,051	18,905,876
In lieu of Property Taxes	5,148,924	5,906,574	5,906,574	5,906,574	5,906,574	5,906,574	5,906,574
Federal Revenues	2,324,312	2,320,632	1,632,650	1,667,723	1,708,609	1,946,915	2,002,579
Charter School Categorical Grant	2,151,588	2,156,746	2,156,745	2,195,566	2,248,260	2,311,211	2,382,859
Other State Revenue	4,292,125	4,473,353	4,115,369	4,151,482	4,215,969	4,292,509	4,379,296
Investment Income	246,600	165,000	185,000	205,000	205,000	205,000	205,000
Other Local Revenue	893,535	812,000	810,000	810,000	810,000	810,000	810,000
QZAB Bond Sale	-	-	3,500,000	-	-	-	-
(TOTAL REVENUES)	36,079,353	33,180,909	35,419,700	31,890,206	32,596,678	33,630,260	34,592,184
EXPENDITURES							
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
Certificated Salaries	16,034,574	14,839,629	14,898,080	14,915,787	15,214,102	15,518,386	15,828,754
Classified Salaries	4,236,747	4,492,265	4,503,183	4,588,947	4,676,426	4,765,656	4,856,669
Benefits	5,717,424	5,546,351	5,242,886	5,342,394	5,534,568	5,734,852	5,943,622
Instructional Materials	1,521,123	1,682,915	2,003,500	1,297,370	1,166,617	1,188,249	1,210,314
Foods and Food Supplies	597,607	575,000	586,500	598,230	610,195	622,399	634,847
Personal Contracts	1,697,835	1,232,000	806,640	727,773	742,328	757,175	772,319
Rents, Leases, Repairs	1,075,015	1,070,000	1,091,400	1,113,228	1,135,493	1,158,203	1,181,367
Other Operating Expense	1,491,023	1,542,649	1,573,502	1,604,972	1,637,071	1,669,812	1,703,208
Facilities, Acquisition, Construction	473,495	575,000	2,725,000	1,275,000	375,000	375,000	375,000
Equipment & Replacement	303,886	120,000	140,000	140,000	140,000	140,000	140,000
Fees to LAUSD	849,265	1,685,943	1,726,425	1,740,286	1,782,045	1,889,787	1,948,425
Debts Repayment	36,267	40,000	40,000	40,000	40,000	40,000	-
Future QZAB Sinking Fund	-	-	350,000	350,000	350,000	350,000	350,000
(TOTAL EXPENDITURES)	34,034,261	33,401,752	35,687,116	33,733,987	33,403,845	34,209,519	34,944,525
Gains/Losses (Rev. vs. Exp)	2,045,092	- 220,843	- 267,416	-1,843,781	-807,167	-579,259	-352,341

Annual audit indicates balanced budget, health reserves, increase in net assets and total fund balance.

Exhibit B
Projected Enrollment

Over the last number of years, the school's enrollment has grown to its current capacity of 4,100 students. In addition, the school maintains an open enrollment waiting list of over 2,000 students. Because the school relies primarily on student enrollment from its pre-charter school attendance boundaries and its open enrollment waiting list, the school's enrollment is expected to remain at capacity for the foreseeable future.

1. The Borrower is a neighborhood, non-sectarian, community-based public school with no admission criteria and no tuition charged.
2. The Borrower will not discriminate on the basis of ethnicity, national origin, religion, gender, gender preference, geographic residence, or disabilities.
3. The enrollment capacity will be 4,100 in Grades 9-12.
4. The Borrower will adhere to all laws established for public school attendance.
5. There will be no school geographic boundary. All students residing in the State of California may enroll in accordance with the California Charter School Law. However, enrollment preference will be given to students who reside in the pre-charter geographic boundary. Students admitted by open enrollment, up to the capacity of the school, will be selected by lottery, as prescribed by state law.