

**CALIFORNIA SCHOOL FINANCE AUTHORITY
REVENUE ANTICIPATION NOTES ON BEHALF OF
BIRMINGHAM COMMUNITY CHARTER HIGH SCHOOL
EXECUTIVE SUMMARY**

RESOLUTION 10-25

Applicant:	Birmingham Community Charter High School (BCCHS)
Amount Requested:	Not to exceed \$3,000,000
Expected Issuance:	August 1, 2010
Use of Proceeds:	The purpose of the financing is to provide BCCHS with access to approximately \$3.0 million of working capital to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state and local funding for FY 2010-11
Bond Type:	Revenue Anticipation Notes
Credit Enhancement:	None
Expected Rating(s):	Transaction will not be rated
Maturity Date:	August 27, 2011
Sale Method:	Private Placement
Purchaser / Lender:	NCB Capital Impact
Borrower's Sponsor:	California Charter School Association
Borrower's Advisor:	First Southwest Company
Bond Counsel:	Orrick, Herrington & Sutcliffe
Borrower's Counsel:	Stradling Yocca Carlson & Rauth

I. Background

The California School Finance Authority (Authority) is a conduit debt issuer created in 1985 to provide financing for working capital and capital improvements to participating parties. A participating party may be a county office of education, school district, community college district, or charter school.

The purpose of the Charter School Working Capital financing is to provide participating borrowers, in this case BCCHS, with access to financing to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state and local funding for FY 2010-11.

II. Structure

The Authority will serve as a conduit issuer in the issuance of revenue anticipation notes, the proceeds of which will be loaned to BCCHS for working capital purposes. The loan agreement will be secured by all available revenue of BCCHS, including but not limited to,

federal, state, local and extraordinary revenue sources. The Authority will have no obligation toward repayment of the notes with NCB apart from any moneys that are pledged under the Loan Agreement with the Borrower. The Authority will have no responsibility for the debt and is serving as a conduit issuer only. Payments will be intercepted by the State Controller via Authority's Intercept Mechanism (Section 17199.4, Education Code) so that payments toward debt service associated with the underlying loans are paid to the Trustee directly by the State no later than the maturity. Moreover, prior to the transaction NCBCI must be deemed a Qualified Institutional Buyer pursuant to 17 CFR 230.144A (Private resale of securities to institutions). NCBCI will not be authorized to sell, transfer or otherwise dispose of the notes without the prior consent of the Authority. The notes are expected to bear interest at 5.5% per annum with all interest due at maturity. In addition, certain fixed fees will be allocated among all Participants and deducted from loan proceeds at the time of the initial borrowing. Although final maturity is still subject to negotiation, it will not exceed fifteen months from issuance. The loan size will be limited to the lesser of (i) the state-aid portion of its expected 2010-11 General Purpose Block Grant or "GPGB" apportionments; and (ii) a maximum permissible borrowing amount determined by NCBCI. In no case shall the loan amount exceed 85% of uncollected FY 2010-11 revenues.

IV. The Borrower

BCCHS commenced instructional operations as an independent charter school in 2009-10 academic year with 2,613 students in grades 9-12. BCCHS anticipates a one-time 5% increase to 2,750 students in grades 9-12 for 2010-11, and for enrollment to remain stable at that level in all projected years. BCCHS is currently in good standing with its authorizer, Los Angeles Unified School District (LAUSD), and in compliance with the terms of its charter. Note that LAUSD is named as a co-defendant in the suit brought against BCCHS and others.

As described in BCCHS' charter, BCCHS is committed to a learning environment that encompasses the following guiding principles: (1) high expectations for academic achievement and civic responsibility; (2) a system of accountability wherein students and teachers are personally invested in their work to further achievement; (3) personalized educational experiences tailored to the needs of all students; (4) providing students with learning opportunities that will translate into accessible skills and knowledge for post-secondary life; and (5) designing programs around student needs and high academic standards, including providing opportunities for growth in areas of weakness. BCCHS offers a rigorous, college-preparatory education that fosters student mastery of California State Content Standards in English, mathematics, science, history, foreign language and fine and technical arts. A basic component of BCCHS' curriculum is to provide an educational program that addresses students' unique needs based on a thorough diagnostic evaluation of each student's skills in reading comprehension and mathematics.

BCCHS's financial outlook is strong as it reduced its overhead cost to LAUSD through the charter conversion process and streamlined its staffs, further reducing cost.

See discussion below regarding BCCHS Legal Status Questionnaire disclosure regarding current litigation the school is facing.

V. Preliminary Sources and Uses

Sources	
Note proceeds	\$2,635,000
Total sources	\$2,635,000

Uses	
Net loan proceeds	\$2,502,524
Bond counsel	55,000
Financial advisor	25,000
Borrower counsel	15,000
File sharing site	3,000
CCSA	10,000
AUTHORITY	11,976
Trustee	5,000
NCBCI underwriting	7,500
Total Cost of issuance	132,476
Total uses	\$2,635,000

VI. The Project / Use of Funds

The purpose of the financing is to provide participating BCCHS with access to financing to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state and local funding for FY 2010-11.

VII. Borrower Financial Data

BCCHS' projections for the 2009-10 fiscal year as of July 1, 2010, and BCCHS' proposed budget for fiscal year 2010-11 has been included as exhibits A and B, respectively to this summary. BCCHS (as an independent charter school) does not have consolidated audited financial statements for prior years.

VIII. Due Diligence Undertaken to Date

In the Legal Status Questionnaire (LSQ) provided by the applicant, BCCHS, responded affirmatively to the two questions contained therein. The school provided extensive information (and a copy of the complaint against the school and others) regarding the legal issues currently facing the school.

As Authority staff and counsel began to vet the legal issues facing the school, concerns were raised about the effect the litigation could have on the school's ability to repay the notes. The complaints in the litigation center around the conversion process from a district-run school to an independent charter school, and alleges that unfair practices were used to coerce teachers to sign the charter conversion petition, that teachers that did not sign were retaliated against, and the complaint calls for the revocation of BCCHS' charter. Additional concerns were raised regarding the reputational risk to the Authority if it were to approve the financing in light of the allegations contained in the complaint. With respect to the latter issue, staff notes that charter school conversions are frequently controversial with many aggrieved parties. Because the litigation is in the very early stages, the complaint has been filed but BCCHS has not filed a response, it is difficult at this time to conclude whether the allegations are true. With respect to the litigation's impact on BCCHS' ability to repay the notes, BCCHS' counsel, has assured CSFA staff that the financial risk to the school is quite low given that most of the allegations outlined in the complaint took place while BCCHS was still a district-run public high school and not an independent charter school, therefore most, if not all of the liability, would flow to LAUSD rather than to BCCHS. Additionally, Authority staff and counsel have spoken with LAUSD representatives and they confirmed that the majority of the allegations outlined in the complaint occurred while BCCHS was still a district-run public high school. LAUSD recently affirmed that BCCHS is in good standing and compliance with its charter. LAUSD staff also noted that similar litigation was brought by opponents of the conversion challenging the validity of the petition and the conversion and the school prevailed in that case.

Additionally, NCBCI has agreed to a waiver that acknowledges that they have received full disclosure regarding the litigation and that they agree to waive any right to sue the Authority and/or the State Treasurer's Office should any resolution of the litigation result in BCCHS' inability to repay the notes.

IX. Staff Recommendation

Staff recommends Authority approve Resolution Number 10-25 in an amount not to exceed \$3,000,000 for Birmingham Community Charter High School subject to final financing terms acceptable to Authority.

EXHIBIT A

BCCHS Financial Projections as of 7/1/10¹

09-10 Fiscal Year (Projected)

BALANCE SHEET	<u>Annual</u>
Cash	(98,418)
Accounts Receivable	4,963,035
Other Current Assets	-
Property, Plant and Equipment	
Leasehold Improvements	5,189
Computers	153,187
Furniture	1,023
Accumulated Depreciation	(9,528)
Other Assets	41,047
TOTAL ASSETS	<u>5,055,535</u>
Accounts Payable	422,678
Payroll Liabilities	1,500,000
Other Current Liabilities	29,572
LT Debt	1,500,000
Total Liabilities	<u>3,452,250</u>
Restricted Balance	-
Unrestricted Balance	1,603,285
Total Equity	<u>1,603,285</u>
TOTAL LIAB AND EQUITY	<u>5,055,535</u>

¹ Certain funding sources (e.g. supplemental revenue, middle and secondary school counseling) have not been provided a calculation to find total revenue for new charter schools

INCOME STATEMENT**Annual**

Revenue Limit Sources	14,413,830
Other Federal Revenue	1,027,266
Other State Revenue	3,834,514
Other Local Revenue	297,995
Interest Income	358
Total Operating Revenue	19,573,963
Certificated Salaries	8,725,344
Classified Salaries	2,085,726
Employee Benefits	2,919,257
Supplies	1,318,415
Consultants	1,144,947
Other Operating Services	1,510,176
Depreciation	9,528
Debt - Interest	92,512
District Oversight	178,099
Total Expenditures	17,984,004
Operating Income	1,589,959
Grants	11,883
Fundraising	1,443
Other Income	13,326
NET INCOME	1,603,285

CASH FLOW STATEMENT	<u>Annual</u>
Net Income	1,603,285
Depreciation	9,528
Adjustments to Income	-
Decrease (Increase) to Current Assets	(4,963,035)
Decrease (Increase) to Other Assets	(41,047)
Increase (Decrease) to Current Liabilities	<u>1,952,250</u>
Net cash flow from operating activities	(1,439,019)
Restricted Balance	-
Capital Expenditures	<u>(159,399)</u>
Net cash flow from investing activities	312,785
Audit Adjustment	
Debt	<u>1,500,000</u>
Net cash flow from financing activities	1,653,386
Net increase (decrease) in cash and cash equiv	(98,418)
Beginning Cash Balance	-
Ending Cash Balance	<u>(98,418)</u>

EXHIBIT B

10-11 Fiscal Year (Projected)

BALANCE SHEET	<u>Annual</u>
Cash	846,886
Accounts Receivable	5,161,944
Property, Plant and Equipment	-
Computers	303,187
Accumulated Depreciation	(40,166)
Other Assets	41,047
TOTAL ASSETS	<u>6,319,111</u>
Accounts Payable	632,377
Payroll Liabilities	1,000,000
Other Current Liabilities	29,572
LT Debt	2,250,000
Total Liabilities	<u>3,911,949</u>
Restricted Balance	-
Unrestricted Balance	2,407,161
Total Equity	<u>2,407,161</u>
TOTAL LIABILITIES AND EQUITY	<u>6,319,111</u>

INCOME STATEMENT**Annual**

Revenue Limit Sources	13,861,532
Other Federal Revenue	1,633,056
Other State Revenue	3,506,401
Other Local Revenue	362,018
Interest Income	2,000
Total Operating Revenue	19,365,006
Certificated Salaries	8,920,908
Classified Salaries	1,921,744
Employee Benefits	2,975,949
Supplies	1,731,769
Consultants	840,535
Other Operating Services	1,702,997
Depreciation	30,637
Debt - Interest	280,219
District Oversight	172,158
Total Expenditures	18,576,917
Operating Income	788,089
Grants	25,000
Fundraising	25,000
Other Income	50,000
NET INCOME	838,089

CASH FLOW STATEMENT	<u>Annual</u>
Net Income	838,089
Depreciation	30,637
Adjustments to Income	-
Decrease (Increase) to Current Assets	(198,909)
Decrease (Increase) to Other Assets	-
Increase (Decrease) to Current Liabilities	<u>(290,301)</u>
Net cash flow from operating activities	379,517
Restricted Balance	-
Capital Expenditures	<u>(150,000)</u>
Net cash flow from investing activities	(60,783)
Audit Adjustment	
Debt	<u>750,000</u>
Net cash flow from financing activities	539,217
Net increase (decrease) in cash and cash equiv	945,304
Beginning Cash Balance	(98,418)
Ending Cash Balance	<u><u>846,886</u></u>