M E M O R A N D U M **<u>Staff Summary No. 10</u>**

Date: April 13, 2010

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 11-18 Authorizing the Allocation of Qualified School Construction Bond Borrowing Authority to Alliance for College-Ready Public Schools, in an amount not to exceed $22,000,000 Under the Charter School QSCB Program Parameters, and Authorizing the Taking of Necessary Actions in Connection Therewith

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The American Recovery and Reinvestment Act of 2009 (ARRA) provides funding for the new construction or renovation of school facilities through the use of Qualified School Construction Bonds (QSCBs).

Since 2009, California received more than $1.42 billion in “volume cap” allocation (not including direct allocations to large local educational agencies) for the issuance of QSCBs. Of this amount, approximately $141 million has been reserved for use by charter schools through the issuance of conduit revenue bonds by the California School Finance Authority (Authority) which will be designated as QSCBs.

At its July 14, 2010 board meeting, the Authority board adopted an open application process for its QSCB charter school bond allocation. At the November 10, 2010 CSFA Board Meeting, the board allocated $22 million to the Alliance for College-Ready Public Schools (Alliance) to finance the construction of two school sites. The QSCB allocation granted at the November 2010 board meeting is set to expire on April 30, 2011. At this time, Alliance is seeking an extension of its QSCB allocation from the April deadline to an October 31, 2011 expiration date. Staff also notes that, given some structuring features of the transaction, CSFA will not be the issuer of the QSCBs on behalf of Alliance. Rather Alliance is now working with the California Statewide Community Development Authority, a conduit issuer. AB 2560, the allocation legislation for the state’s 2010 QSCB allocation, allows the Authority to further assign or distribute the QSCB allocation to another issuer in the state for the benefit of charter schools.

The proceeds of the QSCBs will be used for two Alliance schools. The first project is located at 1918 N. Broadway in Los Angeles. It is to provide permanent facilities for the existing College-Ready Middle School #5, and the to-be-opened College-Ready High School #14. The site consists of over 50,000 sq. ft on which a two-story, 45,000 sq. ft facility will be constructed. A total of 42 classrooms, 4 labs, student and staff restrooms, administration offices, and 92 parking spaces will be constructed. The second project is located at 13245 Hubbard Street, Sylmar, CA. It is to provide permanent facilities for College-Ready High School #13. The site consists of over 76,000 sq. fit on which a two-story, 29,900 sq. ft. facility will be constructed. It will contain 24 classrooms, 2 labs, student and staff restrooms, and an outdoor eating area.

Alliance may be seeking additional QSCB allocation for its College-Ready High #5. Alliance may elect to transfer the QSCB allocation for the Hubbard project to the College-Ready High#5 project (costs for both projects are comparable), due to Alliance wanting to construct a permanent site for an existing, four-year old school that is one of their highest facility priorities, as well as taking advantage of keeping capitalized interest minimal due to not need for a grade roll-out to occur, because College-Ready High #5 is already at full capacity.

The financing for these projects will use a unique structure to combine QSCBs to fund self-leveraged loans with a New Markets Tax Credit financing. The QSCBs will use the tax-credit approach instead of the direct-pay subsidy approach. In addition to the NMTC equity, the tax-credits for the QSCBs will be stripped off and sold to the NMTC equity investor. Based on information provided by the financing team and based on market conditions at the time this summary was drafted, on top of the approximately $2.5 million NMTC equity, this will result in an additional $1.2 million of equity. Staff has not independently analyzed the financing assumptions provided by the financing team. As this is a privately placement, staff has not reviewed any credit reports regarding the borrower or its credit rating.

It has recently come to CSFA's attention that Alliance is in discussions with a large, urban charter management organization for purposes of a potential merger of the two organizations. Staff asked Alliance for information regarding the legal and financial implications of the merger and Alliance staff provided the following explanation, "Nothing is definite as formal negotiations have not yet commenced. More information should become available by mid-May. The legal and financial impact of the proposed merger is expected to be minimal, if and when it is finalized." Staff will continue to monitor this issue and assess any risks such a merger could have on the financial soundness of the Alliance and its schools.

Given that the financing team has identified the new market tax credit investors as well as the lenders into these projects, the amount of reported equity in the financing structure, and the reported readiness of these project, staff recommends that the Board adopt Resolution 11-18 approving the allocation of $22 million of the QSCB borrowing authority to Alliance for College-Ready Public Schools.