

**California School Finance Authority  
School Facility Revenue Bonds  
(Magnolia Science Academy-1, Reseda Project)  
Series 2013A (Tax-Exempt) and Series 2013B (Taxable)**

**EXECUTIVE SUMMARY  
RESOLUTION 13-49**

<b>Borrower/Owner:</b>	MPM Sherman Way LLC (the "Borrower")
<b>Project Users</b>	Magnolia Science Academy-1, Reseda (the "Charter School")
<b>Loan Amount:</b>	Not to exceed \$7,000,000
<b>Expected Issuance:</b>	December 2013
<b>Project:</b>	The bond proceeds will be used by the Borrower to purchase and renovate the property located at 18238 & 18220 Sherman Way, Reseda, California for the benefit of the Charter School
<b>Bond Type:</b>	School Facility Revenue Bonds (the "Bonds")
<b>Project Location:</b>	18220 Sherman Way, Reseda, California
<b>County:</b>	Los Angeles
<b>District in which Project is Located:</b>	Los Angeles Unified School District
<b>Charter Authorizer:</b>	Los Angeles Unified School District
<b>Est. Annual Payment:</b>	Approximately \$456,800
<b>Expected Rating:</b>	Anticipated rating of BB+ by Standard and Poor's
<b>Structure:</b>	Term Bonds expected to have a final maturity of 2043
<b>Sale Method:</b>	Public Offering
<b>Underwriter:</b>	RBC Capital Markets, LLC
<b>Bond Counsel:</b>	Orrick, Herrington & Sutcliffe LLP

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**I. Background and Project Description**

Magnolia Educational & Research Foundation, also known as Magnolia Public Schools ("MERF") is a non-profit organization established in August 1997, headquartered in Los Angeles, California. MERF was granted tax-exempt status (501(c)(3)) by the IRS and the State of California. The vision of MERF is "inspiring students to choose career paths in science and technology." MERF's methodology is a model rooted in the Accord Institute Educational Model and its core values. In the fall of 2002, MERF established the Charter School as its first charter school.

Throughout the years, MERF has established another eleven charter schools to provide the innovative and high-quality education to the nearby community in Southern California. Currently, MERF plans to establish charter schools which have already been granted charters by the State Education Department and local school districts throughout California. In 2009, MERF was approved by the California State Board of Education to start ten state-wide benefit charter school sites in California over the next six years, only the third time that a charter school operator has been granted such permission in California. The first two school sites operating under the statewide benefit charter opened in Sacramento and Orange County in August 2009.

The Borrower is requesting conduit bond financing, in an amount not to exceed \$7 million to finance the acquisition, improvement and equipping of the land and facilities located at 18238 Sherman Way, Reseda, CA 91335, to be owned by the Borrower and leased to MERF for use and occupancy by the "Charter School". The Charter School currently enrolls approximately 488 students.

## **II. The Borrower and the Lessee**

The proceeds of the Bonds will be loaned to the "Borrower whose sole member is Magnolia Properties Management, Inc., a California nonprofit public benefit corporation (the "Sole Member"), pursuant to a Loan Agreement, dated as of December 1, 2013 (the "Loan Agreement"), between the Authority and the Borrower. The proceeds of such loan will be used, along with other available funds, to: (i) finance the acquisition, improvement and equipping of the land and facilities located at 18238 Sherman Way, Reseda, CA 91335 (as more fully described herein, the "Facility"), to be owned by the Borrower and leased to MERF for use and occupancy by the Charter School, (ii) fund a reserve fund, repair and replacement fund and/or capitalized interest with respect to the Series 2013 bonds; and (iii) pay costs of issuance of the Bonds.

## **III. Financial Structure**

The California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project), Series 2013A (Tax-Exempt) and (Taxable) Series 2013B, in the aggregate principal amount of not to exceed \$7,000,000 (the "Series 2013 Bonds" or the "Bonds") will be issued by the California School Finance Authority (the "Authority") pursuant to an Indenture of Trust (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Authority will loan the proceeds of the Bonds to the Borrower. Interest on the Bonds is expected to be payable semiannually on each January 1 and July 1, commencing July 1, 2014.

## **IV. Security and Source of Payment**

The Bonds will be payable through an intercept pursuant to California Education Code, Section 17199.4(a) of funds allocated to the School, and a pledge of the gross revenues of the Borrower. In addition, the property will be subject to a deed of trust

to secure the Bonds. No other revenues, nor any interest in separate facilities will be used to support the Bonds.

MERF will use its award of up to \$600,000 under CSFA's Charter school Facilities Credit Enhancement Grant Program to fund a debt service reserve fund for the Bonds. The debt service reserve fund will be equivalent to the Maximum Annual Debt Service, estimated at approximately \$500,000.

## V. Preliminary Sources and Uses

SOURCES AND USES OF FUNDS			
California School Finance Authority School Facilities Revenue Bonds (Magnolia Project) Series 2013A (Tax Exempt) and Series 2013B (Taxable) ***** Preliminary (30 Year Scenario)			
	Dated Date	12/15/2013	
	Delivery Date	12/15/2013	
Sources:	2013A Tax Exempt	2013B Taxable	Total
<b>Bond Proceeds:</b>			
Par Amount	5,715,000.00	345,000.00	6,060,000.00
<b>Other Sources of Funds:</b>			
DSRF Grant (CSFA)	456,785.00	-	456,785.00
	6,171,785.00	345,000.00	6,516,785.00
Uses:	2013A Tax Exempt	2013B Taxable	Total
<b>Project Fund Deposits:</b>			
Property Acquisition	4,500,000.00	-	4,500,000.00
Improvement Costs	1,000,000.00	-	1,000,000.00
Repair & Replacement Reserve	100,000.00	-	100,000.00
	5,600,000.00	-	5,600,000.00
<b>Other Fund Deposits:</b>			
Debt Service Reserve Fund	456,785.00	-	456,785.00
<b>Delivery Date Expenses:</b>			
Cost of Issuance	86,843.43	263,156.57	350,000.00
Underwriter's Discount	26,313.55	79,736.45	106,050.00
	113,156.98	342,893.02	456,050.00
<b>Other Uses of Funds:</b>			
Additional Proceeds	1,843.02	2,106.98	3,950.00
	6,171,785.00	345,000.00	6,516,785.00

## VI. Borrower Financial Data

The Borrower is a limited liability company, the sole member of which is Magnolia Properties Management, Inc., a California nonprofit public benefit corporation. The

Sole Member is a California nonprofit public benefit corporation formed as a support organization for charter schools formed and controlled by MERF. The Sole Member has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code.

The Borrower is a single purpose entity with no assets other than the Facility and its rights under the Lease, which have been assigned to the Trustee. The Borrower was recently formed for the purpose of owning the Facility and is not expected to have any other assets or revenue available to it to make payments due under the Loan Agreement. Therefore, there is no financial information with respect to the Borrower. Attached as Exhibit A is a schedule of the MERF's 5-year financial projections.

#### **VII. Due Diligence Undertaken to Date**

No information was disclosed that questions the financial viability or legal integrity of the Borrower. Standard opinions of counsel to the Borrower (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. Bond Sales Restrictions**

Per Bond Issuance Guidelines adopted by the CSFA board, the following sales restrictions will be in place for the MSA-1 financing: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

Based on the anticipated credit rating of "BB+" by Standard and Poor's, the following bond issuance guidelines apply to the bonds: 1) the bonds shall have minimum authorized denominations of \$100,000; 2) the bonds will be privately placed or publicly offered initially to Qualified Institutional Buyers ("QIBs") and Accredited Investors ("AIs"); 3) the bond purchasers will be required to execute an initial investor letter; 4) subsequent transfers of bonds will be limited to QIBs and AIs; 5) the bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code; 6) the aforementioned sales restrictions will be conspicuously noted on the bond and described in detail in offering materials, if any, as well as in the bond documents; and 7) one or more of the following will be required as requested by the financing team and approved by the authority: a traveling investment letter, higher minimum denominations of \$250,000, physical delivery, limited initial sale to QIBs, with subsequent transfers limited to QIBs, and other investor protection measures.

#### **IX. Staff Recommendation**

Staff recommends CSFA approve Resolution Number 13-49 in an amount not to exceed \$7,000,000 for MPM Sherman Way LLC.

**Exhibit A  
5 Year Budget Projections  
(MERF)**

<b>Projected Statement of Activities and Changes in Net Assets <sup>(1)</sup></b>					
Fiscal Year Ending June 30	2014 <sup>(1)</sup>	2015 <sup>(2)</sup>	2016 <sup>(2)</sup>	2017 <sup>(2)</sup>	2018 <sup>(2)</sup>
<b>REVENUE</b>					
Federal support	\$ 646,255	\$ 614,235	\$ 614,235	\$ 614,235	\$ 614,235
State support	3,417,626	3,235,490	3,235,490	3,235,490	3,235,490
Local support	730,413	680,086	680,086	680,086	680,086
Private contribution	-	-	-	-	-
Other revenues	15,000	20,000	20,000	20,000	20,000
<b>Total Revenue</b>	<b>\$ 4,809,294</b>	<b>\$ 4,549,811</b>	<b>\$ 4,549,811</b>	<b>\$ 4,549,811</b>	<b>\$ 4,549,811</b>
<b>EXPENSES</b>					
Certified salaries	\$ 1,663,200	\$ 1,618,200	\$ 1,618,200	\$ 1,618,200	\$ 1,618,200
Classified salaries	209,000	209,000	266,000	266,000	266,000
Fringe benefits	490,271	477,291	494,669	494,669	494,669
Books and supplies	580,277	512,263	512,263	512,263	512,263
Services and other operating expenses	929,401	850,975	850,975	850,975	850,975
Depreciation <sup>(3)</sup>	-	-	-	-	-
Capital Outlay	-	-	-	-	-
Debt service	202,770	452,435	451,835	450,885	454,585
Interest Expense	-	-	-	-	-
<b>Total Expenses</b>	<b>\$ 4,074,919</b>	<b>\$ 4,120,164</b>	<b>\$ 4,193,942</b>	<b>\$ 4,192,992</b>	<b>\$ 4,196,692</b>
<b>Change in Net Assets</b>	<b>\$ 734,375</b>	<b>\$ 429,647</b>	<b>\$ 355,869</b>	<b>\$ 356,819</b>	<b>\$ 353,119</b>
<b>Net Assets, Beginning of Year</b>	<b>1,497,669</b>	<b>2,232,043</b>	<b>2,661,690</b>	<b>3,017,559</b>	<b>3,374,378</b>
<b>Net Assets, Ending of Year</b>	<b>\$ 2,232,043</b>	<b>\$ 2,661,690</b>	<b>\$ 3,017,559</b>	<b>\$ 3,374,378</b>	<b>\$ 3,727,497</b>

<sup>(1)</sup> Budgeted. Includes SB 740 projections.

<sup>(2)</sup> Projected. Includes SB 740 projections.

<sup>(3)</sup> Projections do not include a depreciation charge on the Facilities.