

\$45,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
SCHOOL FACILITY REVENUE BONDS
(CLASSICAL ACADEMIES OBLIGATED GROUP)
SERIES 2017A (TAX-EXEMPT) AND 2017B (TAXABLE)
EXECUTIVE SUMMARY

RESOLUTION 17-33

Borrower:	Partnership with Parents LLC (Borrower)
Project User:	Classical Academy High School (CAHS) and The Classical Academy (TCA)
Loan Amount:	Not to exceed \$45,000,000
Expected Issuance:	December 2017
Project:	The proceeds of the Bonds will be used to (i) finance and/or refinance certain costs of the acquisition, construction, expansion, remodeling, renovation, improvement, equipping and/or furnishing of certain public charter school facilities; (ii) fund capitalized interest on a portion of the Bonds; (iii) fund a debt service reserve fund; and (iv) pay the costs of issuance for the Bonds.
Bond Type:	School Facility Revenue Bonds (Taxable and Tax-Exempt Series) (the "Bonds")
Project Locations:	207 E. Pennsylvania Avenue, Escondido, 2950 South Bear Valley Parkway, Escondido and 144 & 146 Woodward Avenue, Escondido
County:	San Diego
District in which Project is Located:	Escondido Union School District / Escondido Union High School District
Charter Authorizer:	Escondido Union School District (TCA) / Escondido Union High School (CAHS)
Est. Annual Payment:	Approximately \$2.25 Million
Expected Rating:	BB+
Structure:	\$37,530,000 (Tax-Exempt) and \$125,000 (Taxable), maturing in 2052
Sale Method:	Limited Public Offering
Underwriter:	RBC Capital Markets, LLC
Bond Counsel:	Stradling Yocca Carlson & Rauth
Trustee:	Wells Fargo Bank, National Association

*Not-to-exceed amount

I. Use of Bond Proceeds/Project Information

Partnership with Parents LLC (the “Borrower”) is requesting conduit bond financing, not to exceed \$45 million, for purposes of (i) financing and/or refinance certain costs of the acquisition, construction, expansion, remodeling, renovation, improvement, equipping and furnishing of certain public charter school facilities (as more fully described herein, the “Facilities”); (ii) funding capitalized interest on a portion of the Bonds; (iii) funding a debt service reserve fund; and (iv) paying the costs of issuance for the Bonds. The Borrower will lease the Facilities to The Classical Academy, Incorporated, and Classical Academy High School, Inc., each of which is a California nonprofit public benefit corporation and charter school, pursuant to the Lease Agreement between the Borrower and the Charter Schools (the “Lease”). The Classical Academy, Incorporated, is the sole member of the Borrower. The Lease will run for the term of the Bonds.

Site	Landlord	Location	Purpose	Amount
The Classical Academy Elementary School	Partnership with Parents LLC	2950 South Bear Valley Parkway, Escondido, CA	Acquire an Existing Leased Site	\$8,000,000
The Classical Academy High School	Partnership with Parents LLC	144 West Woodward Avenue & 207 East Pennsylvania Avenue, Escondido, CA	Refinance Outstanding Bonds	\$30,672,878
Total Estimated Project Costs				\$38,672,878

II. The Project User and the Borrower

The Classical Academies is a term used to describe a family of three schools: Classical Academy, Classical Academy High School and Coastal Academy. The three schools are administered by an Executive Director and a team of 12 professionals who serve all three schools. Each school or school site is managed by an on-site Principal. The Classical Academies is not a separate legal entity or corporation, but exists in name only. The Board of Directors for each of the three corporations is the same. However, Board meetings for each school are conducted separately, and concurrently, and are open to the public.

The Classical Academy, Incorporated is a K-8 elementary public charter school in Escondido, California, and opened in 1999 as the first charter school in the Classical Academies family. Classical Academy High School, Inc. is a 9-12 public charter high school in Escondido, California, and opened in 2006. Each of these two schools is a separate and distinct 501(c)(3) nonprofit public benefit corporation, operating under a charter issued by a separate and distinct authorizing school district – Escondido Union School District and Escondido Union High School District, respectively. Many students graduating from Coastal Academy Charter School in Oceanside also go on to attend Classical Academy High School, Inc. About 80% to 90% of the incoming 9th grade class at Classical Academy High School is composed of students from either The Classical Academy or the Coastal Academy Charter School.

III. Financial Structure

The Authority will issue Tax-Exempt and Taxable School Facility Revenue Bonds in one or more series (collectively the "Bonds"). The Authority will loan the proceeds of the Bonds to the

Borrower to finance the project. The Facilities will be leased by the Borrower to the Schools pursuant to the Leases for the operation of the Schools.

The Bonds will be dated their date of delivery, will be in authorized denominations as stated in the “Bond Sales Restrictions” section of this report, and currently are expected to mature on October 1, 2052. The Bonds are expected to bear interest payable semi-annually on April 1 and October 1 of each year, commencing on October 1, 2018, until maturity or earlier redemption. Bond transfers will be restricted to Qualified Institutional Buyers and Accredited Investors. Annual debt service payments of approximately \$2.25 million will be made through intercept by the Controller of the Schools’ revenues pursuant to Education Code section 17199.4, subdivision (a). However, the Borrower is, in any event, obligated to make sufficient loan repayments to cover the Bond payments if the intercepted funds are insufficient. The Borrower is expected to receive a corresponding amount in lease payments from the Schools.

IV. Security and Source of Payment

The Bonds will be payable from and secured by Payments under the Indenture, consisting primarily of Loan Repayments under the Loan Agreement. The obligations of the Borrower under the Loan Agreement are payable from and secured by the Gross Revenues of the Borrower and by the Deeds of Trust on each Facility. As further security for the Bonds, in connection with the issuance of the Bonds, the Borrower will provide instructions to the State Controller’s Office to make an apportionment to the Trustee in amounts and on dates provided in a written notice sufficient to repay the Bonds and pay necessary and incidental costs. Funds received by the Trustee pursuant to the Intercept described in clause (i) of the definition of Payments will be held in trust and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture, including if necessary, the payment of debt service on the Bonds. Under state law, no party, including the Borrower or any of its creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the State Controller pursuant to the Intercept.

V. Preliminary Sources and Uses/Cost of Issuance

Below are the preliminary estimated sources and uses, and detailed information about the expected costs of issuance for board consideration. Please note that these figures are subject to change between the time the board packets are distributed and the time the board meets and are further subject to final pricing. Members will be provided updated figures should significant changes occur before the board meeting date.

Estimated Sources and Uses

Sources:	Series 2017A (Tax-Exempt)	Series 2017B (Taxable)	Total
Bond Proceeds:			
Par Amount:	\$37,530,000.00	\$125,000.00	\$37,655,000.00
Bond Premium:	\$2,087,977.00		\$2,087,977.00
Transfer of Prior Reserve:	\$2,108,181.00		\$2,108,181.00
	\$41,726,158.00	\$125,000.00	\$41,851,158.00
Uses:	Series 2017A (Tax-Exempt)	Series 2017B (Taxable)	Total
Project Fund			
Deposits:			
Loan Refinance:	\$30,672,878.00		\$30,672,878.00
Property Acquisition:	\$8,000,000.00		\$8,000,000.00
	\$38,672,878.00	\$0.00	\$38,672,878.00
Other Fund Deposits:			
Debt Service Reserve Fund:	\$2,262,000.00		\$2,262,000.00
Delivery Date			
Expenses:			
Cost of Issuance:	\$229,409.54	\$122,045.46	\$351,455.00
Underwriter's Discount:	\$562,950.00	\$1,875.00	\$564,825.00
	\$792,359.54	\$123,920.46	\$916,280.00
Other Uses of Funds:			
Contingency			\$0.00
Total	\$41,727,237.54	\$123,920.46	\$41,851,158.00

Estimated Cost of Issuance

Cost of Issuance	Budgeted Amount
Issuer Fee	\$23,827.50
Agent-for-Sale Fee	\$5,000.00
Bond Counsel Fee	\$95,000.00
Borrower's Counsel Fee	\$30,000.00
Trustee Fee	\$4,500.00
Trustee's Counsel Fee	\$1,500.00
Rating Agency - S&P	\$57,000.00
Financial Printer Fee	\$5,000.00
U/W & Disclosure Counsel	\$85,000.00
School Counsel Fee	\$30,000.00
Real Estate Reports	\$10,000.00
Contingency	\$4,627.50
Total COI	\$351,455.00

VI. Borrower Financial Data

Pursuant to Section 17183.5 of the CSFA Act, financing through the Authority is to be provided only to projects demonstrated by the participating party to be financially feasible. In demonstration of feasibility, the participating party may take into account all of its funds, and may base future projections upon historical experience or reasonable expectations, or a combination thereof. Nothing in Section 17183.5 shall be construed to imply that any project is required to produce revenue in order to be financed under this chapter. Pursuant to this provision, Exhibit A contains financial and operational information for The Classical Academies.

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. Bond Sales Restrictions

The following sales restrictions will apply to the financing given that the bonds are anticipated to receive a below investment grade rating of BB+. The Authority's sales restrictions can be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Bonds will be in minimum denominations of \$100,000;
2. Bonds will be privately placed or publicly offered initially to QIBs and AIs;
3. Initial bond purchasers will be required to execute an Investor Letter;
4. Subsequent transfers of bonds will be limited to QIBs and AIs;
5. Sales restrictions conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents;
6. One or more of the following will be required depending on the transaction, as requested by the financing team and approved by the Authority:
 - a. Traveling Investor Letter; or
 - b. Higher minimum denominations of \$250,000; or
 - c. Physical Delivery; or
 - d. Limited initial sale to QIBs, with subsequent transfers limited to QIBs as well; or
 - e. Other investor protection measures
7. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code

IX. Staff Recommendation

Staff recommends CSFA approve Resolution Number 17-33 Authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$45,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in San Diego County, California for Classical Academy High School, Inc. and The Classical Academy, Incorporated.

EXHIBIT A**Consolidated Projected Statements of Activities and Changes in Net Assets ⁽¹⁾**

Fiscal Year Ending June 30	2018 ⁽²⁾	2019 ⁽³⁾	2020 ⁽³⁾
Student Counts:			
REVENUE			
State apportionment	\$ 12,366,869	\$ 12,614,206	\$ 12,866,491
In-lieu of property taxes	6,962,767	7,102,022	7,244,063
State revenue	2,383,871	2,227,432	2,227,432
Local revenue	1,455,363	1,455,363	1,455,363
Total Revenue	\$ 23,168,870	\$ 23,399,024	\$ 23,793,348
EXPENSES			
Certified salaries	\$ 7,872,858	\$ 7,872,858	\$ 7,872,858
Classified salaries	3,281,071	3,281,071	3,281,071
Employee benefits	3,713,591	3,963,217	4,147,158
Books and supplies	757,008	867,008	867,008
Travel and conferences	101,835	101,835	101,835
Dues and memberships	46,596	46,596	46,596
Insurance	88,851	88,851	88,851
Operation and housekeeping Services	572,327	572,327	572,327
Rental, leases, repairs and non-capitalized improvements	916,636	1,001,636	1,001,636
Professional/consulting services and operating expenditures	4,356,235	4,356,231	4,356,231
Communications	203,026	203,026	203,026
Depreciation	533,000	533,000	533,000
Debt service	49,674	-	-
Other	(62,781)	(62,781)	(62,781)
Total Expenses	\$ 22,429,927	\$ 22,824,875	\$ 23,008,816
Change in Net Assets	\$ 738,943	\$ 574,149	\$ 784,532
Net Assets, Beginning of Year	6,888,970	7,627,913	8,202,062
Net Assets, Ending of Year	\$ 7,627,913	\$ 8,202,062	\$ 8,986,595
Coverage Adjustments			
Depreciation	\$ 533,000	\$ 533,000	\$ 533,000
Estimated 2017 Debt Service Payments	2,255,000	2,255,000	2,255,000
Net Revenues Available for Debt Service	3,526,943	3,362,149	3,572,532
Estimated Coverage Ratio	1.56	1.49	1.58

⁽¹⁾ Consolidated data for the Elementary School and the High School combined.

⁽²⁾ Budgeted.

⁽³⁾ Projected.

EXHIBIT B
Student Count Projections

	2018-19	2019-20	2020-21
Classical	1,360	1,390	1,420
Classical High School	1,300	1,400	1,500
Total	2,660	2,790	2,920