

\$35,500,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (AUTHORITY)
CHARTER SCHOOL REVENUE BONDS
(INTEGRITY CHARTER SCHOOL OBLIGATED GROUP)
SERIES 2024A \$35,000,000 (TAX-EXEMPT) AND 2024B \$500,000 (TAXABLE)
ITEM # 9 RESOLUTION 24-08
STAFF SUMMARY

EXECUTIVE SUMMARY			
Applicant/Borrower:	241 National City Blvd. Fund, LLC	Par Amount Requested:	Not-to-Exceed * \$35,500,000
Financing Term: Fixed rate, up to 40-year financing, 10-year par call, with taxable bonds amortized first		Projected Interest Rate: 6.35%	
Applicant Description: 241 National City Blvd. Fund, LLC, is a California limited liability company the sole member of which is Integrity Charter School, a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, is the borrower. The Borrower was formed for the specific purpose of supporting Integrity Charter School.			
Type of Financing: Tax-Exempt and Taxable Revenue Bonds			
Project User:	Integrity Charter School	County Served:	San Diego
District in Which Project is Located:	National Elementary School District	Charter Authorizer:	National Elementary School District
Financing Description: Proceeds will be used to finance and/or refinance the cost of acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of educational facilities located in National City, CA.; pay capitalized interest; fund related working capital and a debt service reserve fund and repair and replacement fund, if necessary; and pay certain costs of issuance.			
Project Site: 1) 229-241 National City Blvd., National City 91950 and 35 East 3 rd Street, National City 91950; and 3) 701 National City Blvd., National City 91950			
Financing Team:		Financing Details:	
Bond Counsel:	Kutak Rock LLP	Type of Issue:	Charter School Revenue Bonds
Underwriter:	Herbert J. Sims & Co., Inc.	Tax Status:	Tax-Exempt & Taxable
Borrower's Counsel:	Young, Minney & Corr LLP	Maturity:	Not to exceed 2064
Underwriter's Counsel:	Orrick	Credit Enhancement:	Yes
Issuer's Counsel:	Office of the Attorney General	Credit Rating:	BB
Financial Advisor:	Campanile Group	Fees:	See Costs of Issuance Table
Bond Trustee:	US Bank Trust Company, NA		
CSFA Analyst: Robby Biegler		Date of Staff Report: March 21, 2024	
Date of CSFA Board Meeting: March 28, 2024		Resolution Number: 24-08	
Staff Recommendation: Staff recommends the Authority Board approve Resolution Number 24-08 authorizing the issuance of Revenue Bonds in an amount not to exceed \$35,500,000 to finance and/or refinance the acquisition, construction, expansion, renovation, furnishing, and equipping of certain educational facilities located in San Diego County for use by Integrity Charter School.			

BACKGROUND AND HISTORY

Integrity Charter School (ICS) opened in September of 2003, the first charter school in National City. ICS began with 85 students and four teachers in a church basement. The school now serves 390 students in grades TK-8 and has an enrollment waitlist. The ICS curriculum emphasizes core skills (reading, writing, STEM) as well as inter-person and civic-minded engagement. The school is chartered by the National School District, and its current charter petition expires in June 2027. The school primarily serves a Hispanic student population. Other demographic information is provided below.

2023-24

Groups	%
Free-Reduced Lunch	87.00%
English Language Learner	55.00%
Students with Disabilities	8.00%
Black / African American	0.5%
American Indian / Alaska Native	0.0%
Asian / Pacific Islander / Filipino	3.0%
Hispanic	92.0%
White	4.0%
Multiracial / Unspecified	0.5%

The historical, current, and projected enrollment for ICS are below:

	Historical					Current	Projected			
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	27-28
TK	0	0	0	0	0	0			20	20
Kinder	41	39	35	40	39	39	40	40	40	40
1st	39	42	39	40	42	40	40	40	40	40
2nd	44	41	39	39	41	41	40	40	40	40
3rd	42	45	41	41	38	40	40	40	40	40
4th	38	48	45	39	39	33	45	45	50	50
5th	50	41	47	48	45	42	40	45	50	50
6th	41	53	43	45	51	46	45	45	50	50
7th	24	39	52	43	44	50	50	50	50	50
8th	26	22	43	49	44	40	50	50	50	50
	345	370	384	384	383	371	390	395	430	430

PROJECT DESCRIPTION

The proceeds of the bonds will be used to: (1) finance and/or refinance the acquisition, construction, expansion, renovation, furnishing, and equipping of certain charter school educational facilities for ICS, located at and adjacent to: 229-241 National City Blvd., National City 91950; 35 East 3rd Street, National City 91950; 701 National City Blvd., National City 91950, (2) to pay certain expenses incurred in connection with the issuance of the Bonds, and (3) to fund all or a portion of a debt service reserve fund, repair and replacement fund, capitalized interest and related working capital in connection with the Bonds.

A deposit to the Reserve Account for the Series 2024 Bonds in an amount of the Reserve Account Requirement is expected to be funded in whole or in part by proceeds of a grant pursuant to the Authority's Charter School Facilities Credit Enhancement Program or another similar program administered by the Authority, if approved by the Authority.

Facilities Information				
Site	Landlord	Location	Purpose	Amount
Integrity Charter School	241 National City Blvd. Fund, LLC	229-241 National City Blvd. & 35 E. 3 rd , National City	Purchase	\$4,000,000
Integrity Charter School	241 National City Blvd. Fund, LLC	229-241 National City Blvd. & 35 E. 3 rd , National City	Construction	\$27,000,000
Integrity Charter School	241 National City Blvd. Fund, LLC	229-241 National City Blvd. & 35 E. 3 rd , National City	Refinancing	\$1,900,000
Total Estimated Project Costs				\$32,900,000

241 National City Blvd. Fund LLC (NCB), the borrower, intends to use the proceeds of the bonds to refinance an outstanding taxable loan as well as fund acquisition, renovation and new construction costs for ICS.

The current primary campus is located at 701 National City Blvd. and houses grades 3-8. The school owns that facility. The current campus consists of an approximately 11,000 square foot building with 12 classrooms, administrative offices, a cafeteria and play area. The purchase of the existing campus was financed by a \$2m NCB Capital Impact loan, which is intended to be refunded with proceeds of the Series 2024 Bonds. The current loan matures on August 1, 2026. NCB Capital is a CDFI.

Additionally, they lease space from a boys and girls club for their TK-2 students.

In addition to the refinancing this project will finance acquisition and construction of a new ICS campus. The new site will accommodate grades TK-8. After the completion of the new site ICS will sell the existing campus.

The proposed ICS campus is located in National City, at 229-241 National City Blvd and an additional adjacent lot at 35 East 3rd Street. The campus will support 440 students and contain 19 classrooms, a board room, a research lab, a 200-seat multipurpose hall and kitchen, a covered lunch patio, a rooftop garden, and related support spaces. The entire development will contain approximately 33,000 square feet in a 2-story, C-shaped configuration on a sloped, approximately 0.86 acre site.

FINANCING

Borrower: 241 National City Blvd. Fund LLC., a California limited liability company the sole member of which is ICS, a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, is the Borrower. The Borrower was formed for the specific purpose of supporting ICS.

Security and Source of Payment: The Series 2024 Bonds and the interest thereon are payable solely out of certain revenues and income received by the Authority or the Trustee pursuant to the Loan Agreement. The Borrower will enter into a Deed of Trust for its fee simple interest in the ICS campus, and a Reserve Account will be established under the Indenture. ICS, as the lessee, is required to maintain certain financial covenants under its lease agreement with the Borrower. As additional security and in connection with the issuance of the bonds, ICS will provide instructions to the State Controller’s Office to make an apportionment in the amounts, and on the dates provided, in a written notice sufficient in the aggregate to repay the bonds and pay necessary and incidental costs (the “Intercept”).

Funds received by the Trustee pursuant to the Intercept will be applied solely for the uses and purposes set forth in the Indenture, including the payment of debt service on the Bonds. Under the laws of the State of California, no party, including ICS, the Borrower, or any of their respective creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the State Controller’s Office pursuant to the Intercept.

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

Sources and Uses*

Sources:	Series 2024A (Tax-Exempt)	Series 2024B (Taxable)	Enhancement Grant	Total
Bond Proceeds				
Par Amount:	\$31,925,000	\$0		\$31,925,000
Equity Contribution:	\$5,000,000	\$0		\$5,000,000
Other Sources:				
Enhancement Grant	\$0	\$	\$2,000,000	\$2,000,000
Total:	\$36,925,000	\$0	\$2,000,000	\$38,925,000
Uses:	Series 2024A (Tax-Exempt)	Series 202B (Taxable)	Enhancement Grant	Total
Project Fund Deposit				
Acquisition and Construction	\$31,000,000	\$0		\$31,000,000
Refinancing	\$1,900,000	\$0		\$1,900,000
Cost of Issuance	\$519,252	\$0		\$519,252
Underwriter Discount	\$478,875	\$0		\$478,875
Capitalized Interest Fund	\$2,873,250	\$0		\$2,873,250
Debt Service Reserve Fund	\$152,600	\$	\$2,000,000	\$2,152,600
Contingency	\$1,023	\$0		\$1,023
Total	\$36,925,000	\$0	\$2,000,000	\$38,925,000

Total Costs of Issuance*

Expense	Amount
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Issuer Fee	\$25,963
Financial Advisor	\$90,000
Annual Admin Fee	4,789
Agent-for-Sale Fee	6,500
CDLAC Fee	3,000
Issuer's Counsel Fee	20,000
Bond Counsel Fee	125,000
Borrower's Counsel Fee	75,000
Disclosure Counsel Fee	85,000
Rating Agency Fee	40,000
Trustee/Trustee Counsel Fee	9,000
Financial Printer Fee	5,000
Underwriter's Discount	478,875
Underwriter Fee	7,500
Title Insurance Fee	30,000
Appraiser Fee	10,000
Contingency Budget	25,999
Total	\$998,127

**Estimates based on principal amount of \$31,925,000.*

Taxable Bonds: While this Staff Reports contemplates \$500,000 of the proposed not-to-exceed currently allotted for a taxable tail, for this issuance the financing team does not anticipate needing it as there is a considerable equity contribution (\$5,000,000) by ICS.

Credit Enhancement: There will be a not-to-exceed \$2,000,000 credit enhancement award for the Borrower, on behalf of ICS, for this financing that will be before the Authority Board as subsequent agenda items at the March 28, 2024, meeting. If approved, the enhancement awards will fund up to \$2,000,000 of the financing's debt service reserve fund, reducing the overall borrowing cost for the Borrower. *The actual award amount will be finalized at pricing of the bonds.*

SALES RESTRICTIONS

The following sales restrictions will apply to the financing given the likely below-investment grade rating. The Authority's sales restrictions may be viewed at:
<http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

Sub-Investment Grade

1. Bonds will be in minimum denominations of \$250,000;
2. Bonds will be privately placed or publicly offered initially to Qualified Institutional Buyers (QIBs) and Accredited Investors (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 will be 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 Education Code section 17199.4.

OTHER PROJECT DATA

Tax Equity and Fiscal Responsibility Act (TEFRA): The TEFRA Notice was published on the Authority's Webpage on March 20, 2024. The TEFRA hearing will take place on March 27, 2024, prior to the Board meeting, and no comments are anticipated. If any are received, they will be reported at the meeting.

Due Diligence Undertaken to Date: The financial, operating, and other information concerning the Borrower, the Project, and related matters presented in this Staff Summary were provided by the Borrower, ICS and the Underwriter. The analysis contained herein was prepared by Authority Staff for the limited purpose of determining financial feasibility pursuant to Education Code section 17183.5 and providing the Authority Board with information concerning certain aspects of the Project. The review undertaken by Authority staff, the recommendation of Authority Staff to the Authority Board to approve the financing, or any approval by the Authority Board are not intended to, and did not, include all of the due diligence activities and other investigations necessary or desirable for the purpose of making an investment decision relating to the making of the financing by the Lender, and should not be relied on by any party for such purpose.

Borrower Financial Data: The Borrower, 241 National City Blvd. Fund, LLC., is a California limited liability company, and was formed in 2024 to support ICS, by, among other things, holding title to property and managing, operating and leasing property. The Borrower was formed as a single purpose entity of which ICS is the sole member with no assets other than the Facilities owned or leased by it and its rights under the Lease, which will be assigned to the Trustee. The Borrower was formed for the purpose supporting ICS, including by owning facilities, and is not expected to have any other assets or revenue available to make payments due under the Loan Agreement. The Lessee, ICS, is a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Code and sole member of the Borrower.

STAFF RECOMMENDATION

Staff recommends the board adopt Resolution 24-08 authorizing the issuance of revenue bonds in an amount not to exceed \$35,500,000 to finance and/or refinance the acquisition, construction, expansion, renovation, furnishing, and equipping of certain educational facilities located in Los Angeles County for use by New Designs Charter School.

1. **Applicant / Borrower:** 241 National City Blvd. Fund, LLC.
2. **Project:** Acquisition of Facility and related costs
3. **Amount of Financing:** Not to exceed \$35,500,000
4. **Maturity:** 40 years (Not-to-exceed 40 years)
5. **Repayment/Security:** Intercept of Lease Payments and Deed of Trust on Real Property
6. **Preliminary Interest Rate:** 6.35%
7. **Preliminary Cost of Issuance:** The preliminary Costs of Issuance is \$998,127

8. **Not an Unconditional Commitment:** The Authority resolution shall not be construed as unconditional commitment to finance the Project, but rather the Authority's approval pursuant to the resolution conditioned upon entry by the Authority and Borrower into a loan agreement, in form and substance satisfactory to the Authority and its counsel.
9. **Limited Time:** The Board's approval expires 12 months from the date of its adoption. Thus, CSFA must issue the bonds no later than 12 months from that date. Once the approval has expired, the item must return to the Board for new approval.

**APPENDIX A:
SCHOOL GOVERNANCE**

School Leadership

Member	Position
Teresa Hart-Sanchez	Executive Director

Board of Directors

Member	Role
Dr. Susie Fahey	President
Lily Peinado	Treasurer
Nancy Romero	Secretary
Azahalia Veldez	Member
Irene Leivas-Howard	Member

APPENDIX B: BUDGET PROJECTIONS

Integrity Charter School Projections (2024 - 2028)

	Projected 2023-24	Projected 2024-25	Projected 2025-26	Projected 2026-27	Projected 2027-28
Revenue					
LCFF Revenue	5,059,717	5,595,393	6,282,041	6,786,478	7,000,901
Federal Revenue	1,036,793	701,070	676,764	700,648	702,016
State Revenue	1,660,765	2,094,736	2,060,580	2,038,554	2,009,622
Local Revenue	109,000	109,000	109,000	109,000	109,000
Total Revenues	\$7,866,275	\$8,500,199	\$9,128,385	\$9,634,681	\$9,821,540
Expenses					
Certificated Salaries	2,509,029	2,343,852	2,403,771	2,595,711	2,661,728
Classified Salaries	832,826	959,573	988,091	848,579	873,767
Employee Benefits	1,330,318	1,335,464	1,374,833	1,366,113	1,412,590
Books and Supplies	845,324	946,581	880,017	834,208	830,296
Services and Other Operating Expenses	<u>2,137,720</u>	<u>2,156,983</u>	<u>2,254,714</u>	<u>2,258,541</u>	<u>2,293,248</u>
Total Expenses	7,655,216	7,742,453	7,901,426	7,903,151	8,071,629
Net Income	211,059	757,747	1,226,959	1,731,530	1,749,911
Add Back: 701 Facilities	368,962	380,031	391,432	403,175	415,270
Add Back: B&G Club Facilities	67,570	68,922	70,300	71,706	73,140
Add Back Rentals- Meeting room	<u>2,450</u>	<u>2,524</u>	<u>2,599</u>	<u>2,677</u>	<u>2,757</u>
Net Income Available for Lease Payments	650,041	1,209,223	1,691,290	2,209,088	2,241,079
Facilities Payments					
701 Facilities Payment	368,962	-	-	-	-
B&G Club Facilities Payment	67,570	68,922	70,300	-	-
Rentals- Meeting Room	2,450	2,524	2,599	-	-

New 2024 Lease Payments	-	<u>797,970</u>	<u>997,970</u>	<u>1,497,970</u>	<u>1,659,412</u>
Total Lease Payments	438,982	869,415	1,070,869	1,497,970	1,659,412
Coverage Ratio	1.48	1.39	1.58	1.47	1.35
Beginning Cash Balance	10,659,774	3,870,833	4,210,641	4,831,062	5,542,181
Equity Contribution	(7,000,000)	-	-	-	-
Net Income	<u>211,059</u>	<u>339,808</u>	<u>620,421</u>	<u>711,118</u>	<u>581,666</u>
Ending Cash Balance	3,870,833	4,210,641	4,831,062	5,542,181	6,123,847
Days Cash on Hand	185	188	207	227	242