

\$13,500,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(BRIGHT STAR SCHOOLS – OBLIGATED GROUP)
SERIES 2016

EXECUTIVE SUMMARY
RESOLUTION 16-33

Borrower:	Bright Star Education Group, a California nonprofit public benefit corporation (the “Borrower”)
Project User:	Bright Star Schools, a California nonprofit public benefit corporation, for use and occupancy by Valor Academy High School
Loan Amount:	Not to exceed \$13,500,000*
Expected Issuance:	December 2016
Project:	The proceeds of the bonds will be used to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Los Angeles County, California
Bond Type:	Charter School Revenue Bonds (Taxable and Tax Exempt Series)
Project Location:	See “Project Information” section
Counties Served:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Est. Annual Payment:	\$765,000
Anticipated Rating:	Non-Rated
Structure:	\$11,940,000 (Tax-Exempt)
Sale Method:	Limited Public Offering
Underwriter:	Stifel, Nicolaus & Company, Inc.
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Trustee:	Wilmington Trust, National Association

I. Use of Bond Proceeds / Project Information

The proceeds of the Bonds will be used to finance the acquisition, construction, renovation, improvement, furnishing and equipping of the Facility. The Facility consists of a 2.3-acre parcel of land with three vacant single family homes located at 9334 Lemona Avenue, Los Angeles, California—91343. The existing vacant homes will be demolished and replaced with an approximately 30,000 square foot two-story building consisting of classrooms, a multi-purpose room, a counseling center, a special education center, a teacher’s lounge, administrative offices, and an outdoor lunch courtyard. The School will be operated at the Facility by Bright Star. The Facility will accommodate approximately 500 students in grades 9 through 12 and related faculty and administrative staff.

Site	Landlord	Location	Purpose	Amount
Valor Academy High School	Bright Star Development Group – 9334 Lemona, LLC	9334 Lemona Ave North Hills, CA 91343	New Construction	\$12,390,090
Total Estimated Project Costs				\$12,390,090

II. Bright Star Education Group / Bright Star Schools

Bright Star Education Group

Bright Star Education Group (the “Borrower” or “BSEG”), a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), was formed on January 1, 2014 as the charter management organization for Bright Star Schools (“Bright Star”). Bright Star is a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Code. BSEG is the sole statutory member of Bright Star and has the sole purpose of serving Bright Star and each of its charter schools with a full service offering of back-office and school support functions.

Bright Star Schools

Established on November 7, 2002, Bright Star is the holder of charter schools serving Transitional Kindergarten (“TK”) through 12th grade. Bright Star currently holds seven charters from the Los Angeles Unified School District (“LAUSD”) serving approximately 2,660 students (for the 2016-17 school year) in the West Adams, Koreatown and Panorama City neighborhoods in Los Angeles, California. At full capacity, Bright Star intends to serve approximately 4,400 students in TK through 12th grade. Bright Star founded its first school, Stella Middle Charter Academy (“SMCA”), as a fifth through eighth grade school, in August 2003. Bright Star subsequently added Bright Star Secondary Charter Academy (“BSSCA”), as a ninth through twelfth grade school, in August 2006, and Rise Kohyang Middle School (“RKMS”), as a sixth through eighth grade school, in August 2012.

Charter Schools Operated By Bright Star

The table below summarizes the schools within Bright Star's network.

Charter School	Grades at Full Enrollment	1 st School Year	2016-17 Enrollment	Projected Full Enrollment ²	Charter Expires	Authorizer
Valor Academy High School¹	9-12	2013-14	466	500	2017-18	LAUSD
Valor Academy Middle School	5-8	2009-10	496	496	2018-19	LAUSD
Valor Academy Elementary School	TK-4	2016-17	96	461	2020-21	LAUSD
Rise Kohyang Middle School	6-8	2012-13	405	450	2020-21	LAUSD
Rise Kohyang High School	9-12	2016-17	110	545	2020-21	LAUSD
Stella Middle Charter Academy	5-8	2003-04	512	512	2017-18	LAUSD
Bright Star Secondary Charter Academy	9-12	2006-07	575	600	2020-21	LAUSD
Total Network			2,660	3,564		

Source: Bright Star and DataQuest, California Department of Education.

¹ VAHS is expected to reach full enrollment by 2017-18.

Valor Academy High School

VAHS opened in Fall 2013 as an expansion of the accomplished Bright Star Valor Academy Middle School. The School was authorized by LAUSD and its current charter expires on June 30, 2018. In 2015, VAHS received WASC Accreditation. The School is expected to grow from 466 students in 2016-17 to full capacity of 500 students in 2017-18. The bond financing will allow VAHS to secure permanent facilities and relocate from its co-located Prop 39 facilities to continue to develop and serve their target students. Given the robust student retention (>96%), strong academic performance (61% Met/Exceeded ELA SBAC proficiency), and ability to serve their target population (84% FRL) while operating well financially, management maintains a positive outlook for BSS generally and with respect to the School specifically.

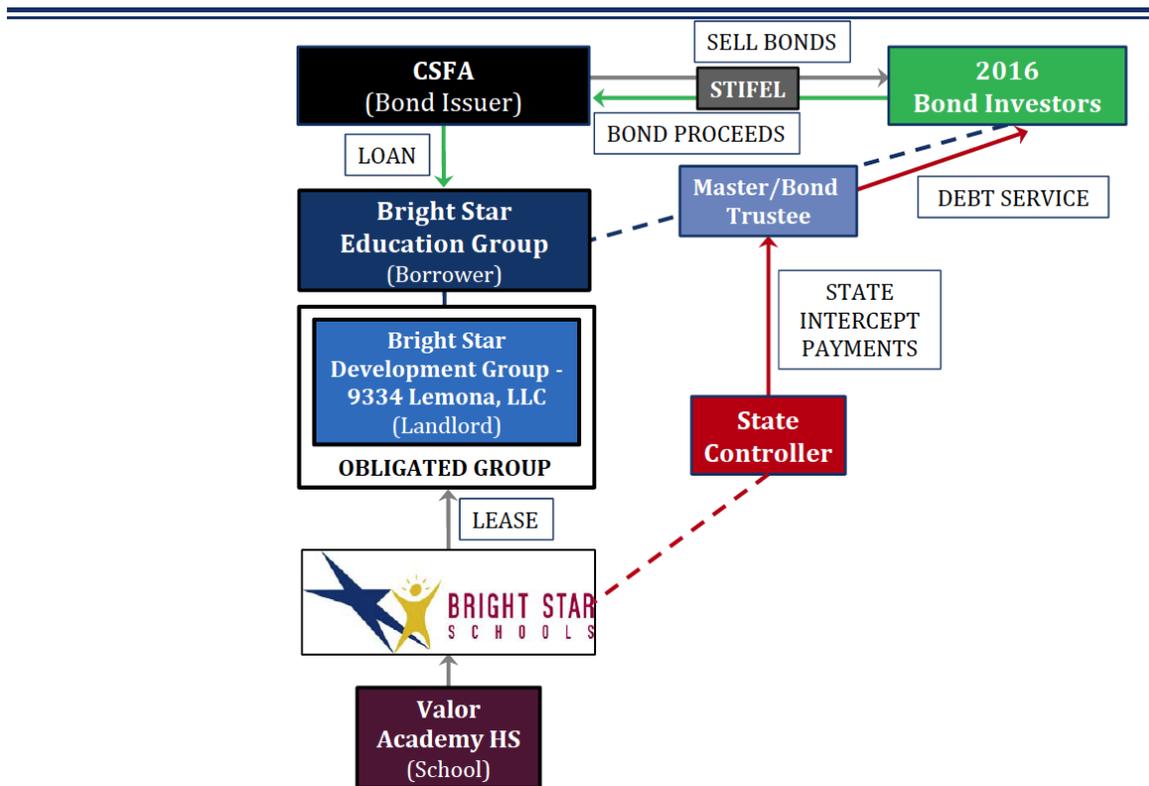
III. Financial Structure

The 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 Intercept (as defined below), and Obligation No. 1 issued by the Borrower in an amount equal to the aggregate principal amount of the Bonds pursuant to the Master Indenture, as supplemented by the Supplemental Master Indenture, each by and between the Borrower, as representative of the Obligated Group, and the Master Trustee.

Obligated Group and Related Parties. The Landlord was created to own the Facility and lease the Facility for the operation of charter schools. In connection with the issuance of the Bonds, the Borrower will enter into the Master Indenture, on its own behalf and as representative of the Obligated Group, with the Master Trustee. Under the Master Indenture, each member jointly and

severally covenants and agrees (a) to pay or cause to be paid promptly all required payments at the place, on the dates and in the manner provided in the Master Indenture and related supplements and obligations, and (b) to faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture and related supplements and obligations. However, the liability of the Borrower for such payments is limited to Gross Revenues.

The Landlord will initially be the sole member of the Obligated Group, and the Borrower, as the sole member of the Landlord, is the Obligated Group Representative. Although additional members may be added to the Obligated Group in connection with future projects and financings, the Borrower and Bright Star make no assurances that additional members will be added to the Obligated Group. The following diagram summarizes the relationships between the Borrower, the Landlord, Bright Star, and the School.



IV. Preliminary Sources and Uses/Cost of Issuance

Below are the preliminary estimated sources and uses for the Bonds, and detailed information about the costs of issuance for board consideration. Please note that these figures are subject to change between the time board packets are distributed and the time the board meets.

Sources:	Series 2016	Equity	Total
Bond Proceeds:			
Par Amount	\$11,940,000	\$0	\$11,940,000
BSEG Equity Contribution	\$630,000	\$370,000	\$1,000,000
GPSN Grant	\$1,500,000	\$0	\$1,500,000
Uses:	Series 2016	Equity	Total
Project Fund Deposits:			
Land Acquisition Cost	\$4,022,900		\$4,022,900
Hard Costs	\$6,038,440		\$6,038,440
Soft Costs	\$1,145,414		\$1,145,414
Management Costs	\$455,000		\$455,000
Project Budget Contingency	\$728,336		\$728,336
	\$12,390,090	\$0	\$12,390,090
Other Fund Deposits:			
Capitalized Interest Fund	\$679,088		\$679,088
Debt Service Reserve Fund	\$764,813		\$764,813
Delivery Date Expenses:			
Cost of Issuance	\$143,133	\$224,426	\$367,559
Underwriter's Discount	\$90,667	\$142,163	\$232,830
	\$233,800	\$366,589	\$600,389
Other Uses of Funds:			
Contingency	\$2,210	\$3,411	\$5,621
Total	\$13,305,188	\$370,000	\$14,440,000

Estimated Costs of Issuance

<u>Cost of Issuance:</u>	<u>Budgeted Amount</u>
Issuer Fee	\$31,761.00
Agent-for-Sale Fee	\$6,000.00
Financial Advisor Fee	\$50,000.00
Bond Counsel Fee	\$95,000.00
Borrower's Counsel Fee	\$80,000.00
Trustee Fee	\$7,500.00
Trustee's Counsel Fee	\$1,000.00
Ratings Agency - Moody's	\$0.00
Ratings Agency - Fitch	\$0.00
Rating Agency - S&P	\$0.00
Financial Printer Fee	\$4,500.00
CDLAC Fee**	
Miscellaneous COI (<i>specify</i>)	
Contingency	\$5,000.00
Underwriter's and Disclosure Counsel Fee	\$65,000.00
Title Insurance	\$20,298.00
Appraisal	\$7,500.00
Total COI	\$373,559.00

V. Borrower Financial Data

Exhibit A contains financial and operational information for Bright Star Schools.

VI. 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, is a 501(c)(3) organization, has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

VII. Bond Sales Restrictions

Given the bonds are non-rated, the following sales restrictions are expected to apply to the bonds. The Authority's sales restrictions can be viewed at: Given the <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Bonds will be in minimum denominations of \$250,000;
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. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code

VIII. Staff Recommendation

Staff recommends CSFA approve Resolution Number 16-32 authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$13,500,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Los Angeles County, California for use by Bright Star Education Group and Bright Star Schools.

Exhibit A
Financial and Operational Information
5-Year Projected Financials

	2016-17	2017-18	2018-19	2019-20	2020-21
Net Income	\$ 133,509	\$ 142,525	\$ 144,668	\$ 145,926	\$ 163,084
Add Back: Depreciation	-	-	-	-	-
Add Back: Rent (Budgeted)	186,240	527,500	675,000	675,000	675,000
Add Back: CMO Management Fee	491,007	573,921	600,833	623,678	640,644
(A) NOI Available for Base Rent	\$ 810,756	\$ 1,243,946	\$ 1,420,500	\$ 1,444,604	\$ 1,478,729
Rent (Prop 39 to LAUSD)	186,240	190,000	-	-	-
Bond Debt Service	-	261,188	746,850	745,550	763,988
(B) Base Rent	\$ 186,240	\$ 451,188	\$ 746,850	\$ 745,550	\$ 763,988
(A/B) Base Rent Coverage Ratio	4.35x	2.76x	1.90x	1.94x	1.94x

Projected Cash Position & Days Cash on Hand

	2016-17	2017-18	2018-19	2019-20	2020-21
(C) Ending Cash Balance*	\$ 1,125,494	\$ 1,344,331	\$ 1,417,149	\$ 1,492,525	\$ 1,566,622
Total Expenses	\$ 5,511,909	\$ 6,455,957	\$ 6,714,145	\$ 6,849,938	\$ 6,978,178
Less: (Depreciation)	-	-	-	-	-
Less: (Base Rent)	(186,240)	(451,188)	(746,850)	(745,550)	(763,988)
Add: Maximum Annual Base Rent	764,813	764,813	764,813	764,813	764,813
(D) Operating Expenses	\$ 6,090,481	\$ 6,769,582	\$ 6,732,108	\$ 6,869,200	\$ 6,979,003
(365*C/D) Days Cash on Hand	67 days	72 days	77 days	79 days	82 days

*Projected cash adjusted to account for lower "Base Rent" than "Rent (Budgeted)" from 2017-18 to 2020-21.

Enrollment by Grade Level
Fiscal Years 2013-14 through 2021-22
The Obligated Group Schools

	Enrollment							
Valor Academy High School	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
9th Grade	97	111	135	130	130	130	130	130
10th Grade	0	100	110	130	130	125	125	125
11th Grade	0	0	99	110	130	125	125	125
12th Grade	0	0	0	96	110	120	120	120
TOTAL	97	211	344	466	500	500	500	500