### \$18,000,000\*

# CALIFORNIA SCHOOL FINANCE AUTHORITY EDUCATIONAL FACILITY 2019 TAXABLE LOAN (KIPP BAY AREA PUBLIC SCHOOLS PROJECT) EXECUTIVE SUMMARY RESOLUTION 19-03

**Borrower:** KBARE (the "Borrower")

Project User: KIPP Bay Area Schools, dba KIPP Bay Area Public

Schools ("KBAPS") as operator of KIPP Bridge Academy

and KIPP Heritage Academy

Loan Amount: Not-to-exceed \$18,000,000

**Expected Issuance:** February 2019

**Project:** The proceeds of the Loan will be used to finance and

refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of certain charter school educational facilities and pay certain expenses incurred in connection with the

Loan and the financing of the Borrower's Project.

**Debt Type:** Educational Facility 2019 Taxable Loans

**Project Location:** See "Project Information" section

County Served: Alameda and Santa Clara

**District in which Project is Located:** Oakland Unified School District and Franklin-McKinley

School District

Charter Authorizer:

Oakland Unified School District and Franklin-McKinley

School District

Est. Annual Payment: \$1,020,000

Anticipated Rating: N/A

**Structure:** Up to \$18,000,000 Taxable Fixed Rate Loan

Sale Method: Private Placement

**Lender/Purchaser:** Charter Impact Fund, Inc.

**Bond Counsel:** Orrick Herrington & Sutfcliffe, LLP (On behalf of Charter

Impact Fund)

**Issuer's Counsel:** California Department of Justice

Master Trustee: Zions Bancorporation, National Association

<sup>\*</sup>Not-to-exceed Amount

### I. Use of Loan Proceeds / Project Information

KBARE wishes to obtain a taxable bank loan from Charter Impact Fund to refinance a construction loan and to reimburse (KBAPS) for each of the two projects, as construction of both will be completed prior to closing the Loan. Loan will have a 30-year term, with a maturity date of March 1, 2049 and is callable after 10 years. The two projects are: 1) KIPP Bridge Academy, which operates at 1700 Market Street, in Oakland, California and, 2) KIPP Heritage Academy, which operates at 423 Los Arboles Street, in San Jose, California. The site on which the Oakland facility is located and an existing 53K sq. ft. facility containing 25 classrooms is leased by KBARE from Oakland Unified School District for a term of 20-years, with two 10-year renewal options. Additionally, KBARE is constructing a 17K sq. ft. annex with funds from KBAPS on the leased ground for the 2018-19 school year; With respect to the KIPP Heritage Academy in San Jose, KBARE leases the site from the Franklin-McKinley School District under a 30-year lease, with two 5-year renewal options. KBARE also constructed and owns a one-story 30K sq. ft. modular facility and adjacent gymnasium. The construction was financed by a loan arranged by Pacific Charter School Development (PCSD) and funds from KBAPS. This project was completed in July 2017 and is now occupied.

Site	Landlord	Location	Purpose	Amount
KIPP Bridge Academy	1700 Market LLC	1700 Market St., Oakland, CA	Refinancing	\$10,195,000
KIPP Heritage Academy	Seven Trees LLC	423 Los Arboles St., San Jose, CA	Refinancing	\$9,995,000
	\$20,190,000			

The Charter Impact Fund (CIF) is a newly formed, tax-exempt 501(c)(3), funded initially by contributions from the Walton Family Foundation, with the purpose of making long-term, low-cost, fixed-rate loans to charter schools for their facilities. The fund is effectively a revolving loan fund, with existing loan repayment revenues used to make new loans. Additionally CIF intends to issue tax-exempt bonds to leverage the revenue streams from the school loan pool. Charter Impact Loans LLC (CIL) is the special purpose entity established and controlled by CIF for the express purposes of owning all school loans and acting as borrower on CIF bonds that may be intermittently issued to reimburse the cost of originating school loans and replenishing the fund to make additional loans. At closing CIF will transfer the CSFA/KBARE loan to CIL.

### II. KIPP Bay Area Public Schools / KBARE

In 2017-18, KBAPS operated 12 schools across the Bay Area, educating over 5,000 students of which over 77% qualified for free or reduced-fee-lunch. 2017-18 enrollment for KIPP Heritage Academy and KIPP Bridge Academy, the project schools, was 451 and 560, respectively.

KBARE, the Borrower, is the initial Obligated Group Representative and the sole member of two California limited liability companies associated with this project: 1) 1700 Market School LLC, the landlord for KIPP Bridge Academy, and 2) Seven Trees School LLC, the landlord for KIPP Heritage Academy. These two LLCs are the initial members of the obligated group. The facilities will be leased by 1700 Market School LLC and Seven Trees School LLC to KBAPS pursuant to the respective leases for use by the project schools. Rent payments under each lease will be payable from revenues of KBAPS derived from the operation of the respective schools.

### III. Financial Structure

The loan will be a 30-year, fully amortizing, fixed-rate structure, with a maturity date of March 1, 2049, callable in 10 years at par, whose interest rate is a taxable interest rate of approximately 4.67%.

# IV. Security and Source of Payment

The loan will be secured by leasehold Deeds of Trust on both Bridge and Heritage encumbering KBARE's leasehold interests in each property through the single-member LLCs. The source of repayment will be lease payments received by the LLCs from KBAPS. The leases are payable solely from the revenues of KBAPS derived from the operation of Bridge and Heritage. Lease rents will be paid, on behalf of KBAPS, by the State Controller directly to the Charter Impact Fund, Inc. through the CSFA Intercept program under Education Code section 17199.4. KBAPS is required under the leases to maintain certain financial covenants at each of the two schools.

KBARE, 1700 Market School LLC and Seven Trees School LLC will enter into a Master Trust Indenture ("KIPP MTI") with Zions Bancorporation, National Association, as master trustee. The KIPP MTI will serve as a credit enhancement instrument for the obligations of KBARE to repay the School Loan.

# V. Preliminary Sources and Uses/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 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.

<b>Estimated</b>	Sources 8	& Uses
------------------	-----------	--------

Sources:	Series 2019	Total
Loan Proceeds		
Par Amount:	\$15,587,408	\$15,587,408
Equity Contribution:	\$4,330,086	\$4,330,086
Total:	\$19,917,494	\$19,917,494
Uses:	Series 2019	Total
Project Fund Deposits:		
Refinance PCSD:	\$2,903,968	\$2,903,968
Refinance KBAS:	\$12,396,032	\$12,396,032
KBAS Equity Contribution:	\$4,330,086	\$4,330,086
Total:	\$19,630,086	\$19,630,086
Delivery Date Expenses:		
Costs of Issuance:	\$287,408	\$287,408
Total:	\$287,408	\$287,408
Total:	\$19,917,494	\$19,917,494

# **Estimated Costs of Issuance (Costs Reflective of Some Mutual of Omaha Carryover)**

Costs of Issuance:	Budgeted Amount
Mutual of Omaha Related	
Appraisal	\$13,705
Lender's Counsel (Kutak)	\$44,000
Good Standing Cert.	\$118
Environmental Fee	\$1,025
Flood Verification Fee	\$60
Bond Counsel (Orrick)	\$50,000
Subtotal	\$108,908
CIF/Closing Related Fees	
Title Fees	\$25,000
Survey	\$5,000
Lender's Counsel Fee (Orrick)	\$50,000
Upfront Rating Fee	\$20,000
Upfront BondLink Fee	\$4,500
Subtotal	\$104,500
Other	
CSFA Application Fee	\$1,500
Issuance Fee	\$10,000
Financial Advisor Fee	\$62,500
Subtotal	\$74,000
Total COI	\$287,408

### 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 KIPP Bay Area Schools, KIPP Heritage Academy, and KIPP Bridge Academy.

## VII. Due Diligence Undertaken to Date

Typically, bond counsel (Orrick Herrington & Sutcliffe, LLP, or Orrick) serves as CSFA's counsel on financing transactions. However, in this financing, CSFA was requested to allow bond counsel to serve in that capacity on behalf of CIF. To protect CSFA's interests under such a structure, five conditions were established and the borrower and lender have agreed to these conditions:

- 1. The Authority note is taxable and non-transferrable (except within the CIF and its related entities and to Qualified Institutional Buyers in the case of default);
- 2. CIF does not require a bond counsel opinion from counsel retained by the issuer;
- 3. The standard investor letter has been enhanced to ensure the Authority is covered, with letters from both the Charter Impact Fund and Charter Impact Loans LLC.
- 4. CIF agreed that the CIF loan will not differ from the bank loan structure previously approved by CSFA.
- 5. The addressees on Orrick's bond counsel opinion will include CSFA.

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.

#### VIII. Sales Restrictions

The Loan will be non-transferable except within the Charter Impact Fund and its affiliated entity, and in the case of default, and the following restrictions will apply:

- 1. The Note will not be broken into smaller denominations;
- 2. The Note will be privately placed with CIF and/or CIL;
- 3. CIF and CIL will each be required to execute an Investor Letter;
- 4. Subsequent transfers of the Note will be limited to transfers between CIF and CIL or to Qualified Institutional Buyers in the case of a default;
- 5. Sales restrictions will be conspicuously noted on the Note and described in detail in offering materials, if any, as well as included in the Loan documents;
- 6. Loan repayments 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 19-03 Authorizing a Loan to the Authority in an Amount Not to Exceed \$18,000,000, the Issuance by the Authority of a Promissory Note Evidencing the Obligations of the Authority in Connection with Such Loan, and a Loan from the Authority to KBARE, to Finance and Refinance a project at Educational Facilities Located in Alameda and Santa Clara Counties for use by KIPP Bay Area Public Schools, providing the terms and conditions for such loans and promissory note and other matters relating thereto, and authorizing the execution of certain documents in connection therewith.

# Exhibit A – 5 Year Financial Projections, Enrollment and Coverage Ratios

KIPP Bridge Academy	Au	dited	Unaudit	ed						
	Ac	tuals	Actual	5						
INCOME STATEMENT	16	/17	17/18	18/1	9	19/20	20/21	21/22	22/23	23/24
+ Total Revenue										
+ Total Revenue Total Revenue		0,509	5,719,9	59 6,675,	024	7,532,811	8,282,603	8,797,967	9,429,536	9,786,384
Total Revenue		0,000	0,710,0	00 0,070,	024	7,002,011	0,202,000	0,707,007	0,420,000	0,700,004
- Operating Expenses	(5.24	8.978)	(5,525,8	54) (7.245.	051)	(7.873,128	(8,517,671)	(8,910,171)	(9.468.876)	(9.779,696)
+ Depreciation		5,481	25,4		481	25,481		25,481	25,481	25,481
+ Regional Support Office Fees	(subo 61	4,691	612,7	17 738,	282	806,913	887,214	968,398	1,054,588	1,093,266
+ Rent		0		0 670,		670,000	670,000	670,000	680,000	680,000
Net Available for Debt Servi	ce 2,13	1,702	832,3	02 863,	735	1,162,077	1,347,626	1,551,675	1,720,728	1,805,435
Debt Service + Lease Costs	;	0		0 490,	926	490,926	490,926	490,926	490,926	490,926
Debt Service Coverage Rat	io			1	.76x	2.37	x 2.75x	3.16x	3.51x	3.68x
Debt delivide dovelage has						2.01	2.70	0.102	0.012	0.00x
Required Debt Service Cove	erage	1.10x	1.	10x 1	.10x	1.10	x 1.10x	1.10x	1.10x	1.10x
Meeting Debt Service Cove	rage	Yes	,	Yes	Yes	Ye	s Yes	Yes	Yes	Yes
ENROLLMENT										
TK		19	26	25		25	25	25	25	25
K-3 4-8		225	214 223	25		280	308	336	336	336
4-0 7-8		215 135 594		23° 10°		248 121	248 142	248 155	279 168	279 172 812
Total at Start-of-Year				61		674	723	764	808	
KIPP Heritage Academy	Audit	ed	Unaudited	1						
· · · · · · · · · · · · · · · · · · ·	Actua		Actuals							
INCOME STATEMENT	16/1		17/18	18/19		19/20	20/21	21/22	22/23	23/24
+ Total Revenue										
Total Revenue	3,284,369	4,7	41,859	5,038,581	4	,943,975	5,096,868	5,254,515	5,416,957	5,584,509
- Operating Expenses	(2,847,078)	(4.0	52,168)	(4,709,610)	(4	,922,711)	(5,113,700)	(5,317,380)	(5,413,496)	(5,604,062)
+ Depreciation	1,015	(4,8	1,015	1,015	(4	1,015	1,015	1,015	1,015	1,015
+ Regional Support Office Fees (subv	369,208	5	03,293	523,260		523,518	540.438	557,594	575,269	593,499
+ Rent	55,979		50,000	750,000		750.000	760.000	760.000	760,000	770.000
Net Available for Debt Service	863,493		44,000	1,603,245	1,	,295,796	1,284,621	1,255,744	1,339,746	1,344,961
Debt Service + Lease Costs	55,979	2	79,940	629,822		632,688	636,023	639,464	643,014	646,677
Debt Service Coverage Ratio	15.43	c	3.73x	2.55x	ī.	2.05x	2.02x	1.96x	2.08x	2.08x
Required Debt Service Coverage	1.10	c	1.10x	1.10		1.10x	1.10x	1.10x	1.10x	1.10x
Meeting Debt Service Coverage	Yes	5	Yes	Yes	;	Yes	Yes	Yes	Yes	Yes

ENROLLMENT

Total at Start-of-Year

5th

6th

8th

#### KIPP Bay Area Public Schools - 2018-19 Adopted Budget

KIPP Bay Area Schools Consolidated Statement of Operations Fiscal Year Ending June 30, 2018 BUDGET SUBMITTED FOR

KBAS KBARE BOARD APPROVAL RSO (Incl. King San Jose SF College KBAS KBARE SpEd. KTC. Heritage TOTAL Collegiate Elimination Subtotal KBARE Elimination Subtotal Bayview Bayview ES Bridge Excelencia Heartwood Prize SF Bay Collegiate Prep Vallant Navigate Yr 0'8) REVENUE 2.994,934 1,324,296 State & Local ADA Revenue 5.906.255 7.062.622 4.171.843 4.186.083 4.119.250 3.646.893 3.997.548 6.636.762 5.942.790 4 584 667 4.239.286 1.657.087 0 60.470.319 п 60,470,319 Federal Revenue 112,788 45,100 194,987 319,577 172,575 147,991 184,636 150.405 142,241 206,449 179,249 130,990 171,201 48,136 762,949 2,969,274 2,969,274 Other State Revenue 599.051 18 415 508,742 270,617 290.622 687.258 246,149 391.908 290.644 203,189 159.680 252,936 66.787 3 882 295 7.868.293 7.868.293 Grants & Philanthropy 1,191,042 1,284,284 19.063.600 (10.544.703) 11 291 321 9,680,000 (2.430.000)7.250.000 18,541,321 297 098 О О 11,100 TOTAL REVENUE 6,675,024 7,705,021 4,709,841 5,038,581 4,598,442 4 209 206 4 483 290 7 167 556 6,411,385 4,997,339 4,806,711 2.995,057 23,708,844 83,274,409 9,680,000 7 250 000 90,524,409 **EXPENSES** Personnel 1,113,584 2 035 201 1.333.038 20 392 614 0 20 392 614 Teacher Salaries 450 386 1 885 494 2 505 641 1 488 518 1.348 622 1 237 959 1 405 250 1 420 351 2 000 465 1 641 888 526 219 0 О О 0 15.965.711 27.061.457 Administrative Salaries 636,131 469.084 1.333.974 1.088.346 635,499 626 543 754,252 671.458 630.902 1,297,040 974,796 693,727 818,925 465.070 0 27.061.457 Employee Benefits 412 948 248 626 803 849 911.426 527,090 486,845 510.451 496,069 626 791 797 782 718.387 568 086 546,150 250.872 3,654,266 11,559,640 11,559,640 Total Personnel Expenses 4,023,317 3,728,384 2.903,701 2,698,113 19,619,978 59,013,712 2.162.663 1.168.096 4.505.412 2.651.107 2.462.011 2.502.662 2.572.777 2.678.044 4,095,287 1,242,161 59.013.712 Instructional Expenses State Approved Texts 24,221 10,000 3,226 6,000 19,293 6,000 16,337 85,077 85,077 Non-Text Instructional Resources 2,000 20,002 35,390 28,195 14,727 1,052 8,073 9,000 17,295 8,250 145,285 145,285 1,300 Instructional Materials & Supplies 77,354 107,451 365,060 493,262 143,098 132,038 216.198 124,133 148,024 301,663 305,059 111,630 483,865 98,169 3,107,005 3,107,005 Food Service & Supplies 8,243 2,500 607 681 49,924 51,112 4.634 0 117,701 0 117,701 Field Trips 16,468 2,740 43,000 52,616 51,205 84,000 72,150 32,000 20,000 90,000 57,932 50,000 25,737 18,150 615,998 615,998 257,135 222,841 186,704 231,225 264,050 208.622 104,434 Special Education Encroachment 135,444 99,016 303,395 220.390 273,563 278,071 201,022 (2.985.913)Other Contract Services 6,000 536,254 239,509 236,779 719,585 431,871 413,590 382,575 783,147 701,674 745,519 561,335 5,022,655 5,022,655 Fundralsing & Marketing 683 437 683 437 683 437 О Operations Services 26,320 26,320 26,320 205,624 205.624 205,624 Finance & Accounting 0 0 KIPP Through College 219,477 219,477 219,477 0 Consultants (Legal, Facilities) 129 000 0 129 000 О О 129 000 396,546 396,546 396,546 Human Resource Services 1.252,623 1 252 623 1,252,623 Academic Services О Administrative Expenses Administrative Materials & Supplies 27,857 14,861 36,510 41,261 22,237 25,527 26,805 29,024 25,582 48,767 36,129 28,610 19,078 9,504 46,600 0 438,352 0 438,352 122,307 46,658 262,960 126,238 139,343 123,849 110,462 118,213 194,732 153,107 210,198 159,752 60,138 2,108,604 2,108,604 Operations & Housekeeping 280.645 0 183,532 Facilities 329,666 63.089 848.541 143.371 841.148 1.133.388 127.341 138.704 201.189 114,746 149.005 128,732 61.005 589.445 (2.430.000)2.622.903 273,498 273.498 2.895.401 Professional Fees & Services 518 240 267 118 884 811 1 153 470 599 419 681 996 593 280 593 078 632 277 1 020 612 951 189 723 169 702 738 310 661 71 725 (7.558.790) 2 144 993 2 144 993 11.830 35,001 22,107 20.542 20.509 18.086 28.532 24.583 25,726 22.785 12,936 128,953 447,329 447,329 Communications 16,178 39.291 20.270 149 854 165 630 139 778 187 106 251 906 224 315 398 347 3 500 244 3.500,244 Technology Infrastructure & Blended 283 976 448 496 229 675 211 116 185 038 199 188 311 606 114 216 Equipment
Total Administrative Expense 5,676 1,854,009 45.784 141.95 2,493,756 2,160,527 2,196,511 1,129,055 1,142,176 1.366,718 1.363,078 591,561 12,259,534 13.047.854 TOTAL EXPENSE 3,590,189 1,989,952 7,236,658 7,662,724 4,323,224 4,729,610 5,235,427 4,084,406 4,325,678 6,918,900 6,046,330 5,024,904 4,806,711 2,395,057 23,813,858 79,208,927 788,320 788,320 79,997,247 Other Income Special One-Time Revenue (e.g. Prop 10 583 132 511 415 Net Interest Income (Expense) 5,607,171 132,677 600,000 42,297 386,616 308,970 124,799 157,612 176,939 365,054 600,000 478,118 2,430,000 4,576,898 8,037,171 10,184,068 Net Income (Loss) Cash Flow Beginning Cash 1,315,733 2,035,697 4,955,375 1.333.197 755,231 1,727,883 2,651,929 1.978.177 3.807.554 883,356 200,000 55,354,213 77,804,977 385,952 78.190.928 Net Income 132,677 600,000 42,297 386,616 308,970 124,799 157,612 365,054 600,000 478,118 2,146,898 8,037,171 8,037,171 10,184,068 176,939 Depreciation 15,620 0 25.481 89.827 1,015 81,574 26,738 20,593 283,631 82,905 28,773 0 33.284 689,440 514.822 514.822 1.204.262 Intracompany Loans 11.850.000 0 11,850,000 (117,871)9.061.673 8 943.803 Pyternal Loans 9 061 673 (180,000) (150,000) Capital Expenditures (5.641.817 (5.641.817 (5.971.817 Other (e.g receivables, payables) 5,251,818 1,643,182 1.464.030 200,000 1,499,542 848,928 199,821 1,879,420 2,830,134 2,320,876 4,105,513 884,563 200,000 200,000 66,587,398 90,115,226 507.801 507.801 90,623,027 Fund Balance 4,934,497 1,326,983 2,058,268 1,389,610 2,857,890 6,850,865 1,374,499 1.503.942 3,361,764 632.882 89.870.618 0 120,428,751 285.056 120.714.817 Beginning Fund Balance 0 3.325.293 941.640 0 286,066 308,970 (636,985) 1,635,953 1,421,283 124,799 157,612 176,939 1,514,410 3,015,502 7,027,804 2,146,898 122,575,648 8,037,171 Net Income (Loss) 478,118 8.037.171 10.184.068 3,726,818 632,882 600,000 8,323,237 130,898,885 Ending Fund Balance

Prepared on May 1, 2018