

\$17,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
EDUCATIONAL FACILITY 2020 LOAN
(CALIBER: CHANGEMAKERS ACADEMY)
ITEM #4 - RESOLUTION 20-02

*Not-to-Exceed Amount

STAFF SUMMARY

EXECUTIVE SUMMARY																	
Applicant/Borrower:	Valle Vista Education, LLC	Par Amount Requested:	Not-to-Exceed *\$17,000,000														
Financing Term: 30 years		Interest Rate: 3.66% (Estimated)															
Estimated Source of Funds: Taxable Loan: \$17,000,000*		Estimated Use of Funds: Purchase of facility and reimbursement of improvements made to facility.															
Applicant Description: Caliber East Bay Real Estate is a 501(c)(3) organization formed exclusively to support Caliber Public Schools and acts as sole member Valle Vista Education, LLC, a single member California limited liability company.																	
Type of Financing: Educational Facility Loan (Taxable)																	
Project Users:	Caliber: ChangeMakers Academy	County Served:	Solano County														
District in Which Project is Located:	Vallejo City Unified School District (VCUSD)	Charter Authorizer:	VCUSD														
Project Description: Facility purchase and reimbursement of improvements.																	
Project Sites: 500 Oregon Street, Vallejo, CA 94590																	
<table style="width: 100%; border: none;"> <tr> <td style="width: 25%;">Type of Issue:</td> <td>Loan through Equitable Facilities Fund, Inc.</td> </tr> <tr> <td>Tax Status:</td> <td>Taxable</td> </tr> <tr> <td>Maturity:</td> <td>February 27, 2050</td> </tr> <tr> <td>Credit Enhancement:</td> <td>No</td> </tr> <tr> <td>Credit Rating:</td> <td>BB+</td> </tr> <tr> <td>CSFA Fees:</td> <td>See Costs of Issuance Table</td> </tr> <tr> <td>Other Fees:</td> <td>See Costs of Issuance Table</td> </tr> </table>				Type of Issue:	Loan through Equitable Facilities Fund, Inc.	Tax Status:	Taxable	Maturity:	February 27, 2050	Credit Enhancement:	No	Credit Rating:	BB+	CSFA Fees:	See Costs of Issuance Table	Other Fees:	See Costs of Issuance Table
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Estimated Sources of Funds		Estimated Use of Funds	
Tax Exempt Loan Proceeds	\$17,000,000*	Property Acquisition	\$13,425,297
Total	\$17,000,000*	Reimburse Caliber Schools	\$517,000
Financing Team:		Total Project Costs	\$13,942,297
Lender:	Equitable Facilities Fund, Inc.(EFF)	Total Costs of Issuance:	\$329,675
Bond Counsel on behalf of Lender:	Orrick, Herrington & Sutcliffe LLP (On behalf of EFF)	Total	\$14,271,972
Borrower's Counsel:	Musick Peeler & Garrett LLP	Not-to-Exceed Soft Costs	\$2,728,028
Issuer's Counsel:	Attorney General's Office	Not-to-Exceed Amount	\$17,000,000*
Issuer:	California School Finance Authority		
Master Trustee:	Zions Bancorporation, National Association		
Agent for Sale:	State Treasurer's Office		
CSFA Staff: Robby Biegler		Date of Staff Report: January 16, 2020	
Date of CSFA Board Meeting: January 30, 2020		Resolution Number: 20-02	
Staff Recommendation: Staff recommends the California School Finance Authority Board approve Resolution Number 20-02 authorizing the issuance of an Educational Facility Loan in an amount not to exceed \$17,000,000 to finance and refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and equipping of certain educational facilities located in Solano County for Caliber: ChangeMakers Academy.			

BACKGROUND AND HISTORY

The proceeds of the Loan will be used by Valle Vista Education, LLC (VVE, the Borrower) to finance the purchase of the Caliber: ChangeMakers Academy (CMA) campus, located between two streets and has addresses at each corner at 500 Oregon Street and 211 Valle Vista Avenue, in Vallejo (Oregon Street Facility), as well as reimburse certain costs associated with the Oregon Street Facility, and pay costs of issuance.

Caliber Public Schools (Caliber) opened its first campus in 2014, Caliber Beta Academy (Beta), in the City of Richmond, which now serves TK-8 students . Two years later, Caliber opened another Bay Area campus, CMA, in the City of Vallejo, also serves grades TK-8. The Caliber curriculum emphasizes educational equity and restorative justice and serves a largely lower income population. Beta is currently fully enrolled with 862 students while CMA is at 89% capacity with 754 students. Beta’s charter was re-approved by the West Contra Cost Unified School District in July of 2019. CMA’s charter expires in the summer of 2021 and the school is in conversation with Vallejo City Unified School District working on re-approval.

School	Current Charter Term	Authorizer
Caliber Beta Academy	July 1, 2019 - June 30, 2024	West Contra Costa Unified School District
Caliber: ChangeMakers Academy	July 1, 2016 – June 30, 2021	Vallejo City Unified School District

	% Free and Reduced Priced Lunch	% Minority Students	% English Language Learners
Caliber Beta Academy	78%	97%	24%
Caliber: ChangeMakers Academy	62%	93%	15%

Caliber is structured with a central management office (CMO) that provides financial and administrative support as well as data analytics and talent management and recruiting support for both schools. Current and Projected Enrollment for Beta and CMA are as follows, additionally projected financials and enrollment for CMA individually are attached as Appendix A:

Caliber Public Schools Enrollment									
Enrollment by School		Actual 2017-18	Actual 2018-19	Actual 2019-20	Projected 2020-21	Projected 2021-22	Projected 2022-23	Projected 2023-24	Projected 2024-25
ChangeMakers Academy - Vallejo	TK	15	17	18	15	15	15	15	15
	K	96	108	101	100	100	100	100	100
	1	100	98	105	100	100	100	100	100
	2	50	99	98	100	100	100	100	100
	3	50	53	104	100	100	100	100	100
	4	52	53	56	100	100	100	100	100
	5		53	51	60	100	100	100	100
	6	73	83	57	60	60	90	90	90
	7	56	85	89	60	60	60	90	90
	8		59	72	85	60	60	60	90
	Total	492	708	751	780	795	825	855	885
Beta Academy - Richmond	TK			10	15	15	15	15	15
	K	95	97	98	100	100	100	100	100
	1	98	98	98	100	100	100	100	100
	2	99	99	100	100	100	100	100	100
	3	100	103	99	100	100	100	100	100
	4	97	101	102	100	100	100	100	100
	5	94	94	96	100	100	100	100	100
	6	87	92	91	90	90	90	90	90
	7	44	81	87	90	90	90	90	90
	8	75	37	77	90	90	90	90	90
	Total	789	802	858	885	885	885	885	885
Caliber Public Schools Total		1,281	1,510	1,609	1,665	1,680	1,710	1,740	1,770

PROJECT DESCRIPTION

The proceeds of the Loan will be used to 1) finance the purchase of the Oregon Street Facility; 2) reimburse certain costs associated with the Oregon Street Facility; and 3) pay costs of issuance.

Site	Landlord	Location	Purpose	Amount
Caliber: ChangeMakers Academy	Valle Vista Education, LLC	500 Oregon Street and 211 Valle Vista Avenue, Vallejo, CA 94590	Facility Purchase	\$14,500,000
Total Estimated Project Costs				\$14,500,000

In 2017, Caliber commissioned Pacific Charter School Development (PCSD) to build a facility for CMA. The project was completed in the summer of 2018 and consists of a two-story building, around 57,000 square feet, a play facility and a parking lot. Subsequently VVE made minor improvements to the facility, at a cost of around \$517,000, including additional walls for the second floor to subdivide open space into smaller rooms and installing sound dampening flooring to reduce noise transfer. VVE obtained a purchase option with PCSD to formally acquire the facility. VVE intends to acquire a loan through the Equitable Facilities Fund, Inc. (EFF) and use the proceeds from that loan to purchase the Oregon Street Facility from PCSD and payoff the \$517,000 in additional improvement costs. In December 2019, Caliber received a BB+ credit rating from S&P.

EFF/ Orrick, Herrington & Sutcliffe, LLC Relationship

EFF is a Delaware-based nonstock nonprofit corporation that has 501(c)(3) tax-exempt status as a public charity. EFF was initially funded by philanthropic contributions from the Walton Family

Foundation, and is organized to make low-cost, long-term, fixed rate loans to charter schools for facilities. The EFF program is set up as a revolving loan fund, so that as existing school loans are repaid, the loan repayment revenues can be used to make new loans. In addition, EFF has obtained and will continue to seek capital market financing in the form of tax-exempt bonds to leverage the revenue streams from their pool of school loans. Depending on the locations of the projects financed by the loans over time, EFF will issue bonds using various conduit issuers in various jurisdictions, and, as it did in connection with its first issuance of bonds in 2019, possibly use a national conduit issuer that has authority to finance projects in multiple jurisdictions. EFF will use the proceeds of such bonds to reimburse itself for loans it previously originated, in order to make additional loans.

Orrick, Herrington & Sutcliffe, LLC (Orrick) represents EFF, and acts as its primary outside counsel on all lending and financing transactions nationally. Orrick's relationship with EFF is managed by Eugene Clark-Herrera.

In the proposed loan to VVE, structured as a conduit loan through CSFA, Orrick would act as EFF counsel. Although Orrick would not have an attorney-client relationship with CSFA on the Caliber transaction, Orrick would perform most, if not all, of the tasks ordinarily performed in other transactions when acting as bond counsel to CSFA. While these tasks are associated with the role of "bond counsel", there is no legal or ethical requirement that the firm performing these tasks be retained by the conduit issuer. In the Caliber transaction, the parties, EFF and Caliber, have agreed that Orrick should perform these tasks because of its prior experience in doing so on similar transactions. The only difference on this transaction would be that Orrick's client relationship is not with CSFA, but instead with EFF. Therefore, in this transaction, the Attorney General's Office will represent CSFA (as issuer's counsel), without need for an additional law firm to act as CSFA's outside bond counsel.

The financing will be structured as a tri-party loan, with EFF as the lender, CSFA as the conduit, and VVE as the borrower. As with the previous loan through EFF for KIPP Bay Area Public Schools, the intercept will lower the costs for VVE vs. a conventionally structured loan.

FINANCING

The facilities acquired with the proceeds of the Loan will be leased by VVE (Landlord) to Caliber (Lessee), a nonprofit public benefit corporation, pursuant to certain leases by and between the Lessee and the Landlord. The Facilities will be used by the Lessee to operate CMA.

Security and Source of Payment

The Loan will be secured by an obligation issued pursuant to a Master Trust Indenture (Indenture) establishing an Obligated Group, including a pledge of rental revenues and mortgages on all related property interests naming Master Trustee as mortgagee. The lease with Lessee will be subject to Intercept. Lessee is required under the lease to maintain certain financial covenants. As additional security, and in connection with the issuance of the Loan, VVE will provide instructions to the State Controller's Office to make an apportionment to Zions Bancorporation, National Association (Trustee) with respect to CMA in the amounts, and on the dates provided, in a written notice sufficient in the aggregate to repay the Loan and pay necessary and incidental costs (Intercept). Funds received by the Trustee pursuant to such Intercept 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 Loan. Under the laws of the State of California, no party, including VVE, the Lessee, 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 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.

Sources and Uses

Sources:		Loan Proceeds
Bond Proceeds:		
Par Amount		\$14,257,297.00
	Total:	\$14,257,297.00
Uses:		Total
Project Fund Deposits:		
Refinance PCSD		\$13,425,297.00
Reimburse Caliber Schools		\$517,000.00
		\$13,942,297.00
Other Fund Deposits:		
Debt Service Reserve Fund		
Delivery Date Expenses:		
Costs of Issuance		\$329,675
		\$329,675
Other Uses of Funds:		
Additional Proceeds		
Total:		\$14,271,972

Total Costs of Issuance*

Expense	Amount
CSFA Issuance Fees	\$35,000
CSFA Admin Fees	\$2,175
Issuer's Counsel Fees	\$6,000
Agent-for-Sale Fees	\$6,000
CDIAC Fee	\$0.00
Bond Counsel Fees	\$150,000
Borrower's Counsel Fees	\$70,000
Trustee Fee	\$6,000
Trustee Counsel Fee	\$4,000
Rating Agency Fee	\$20,000
Title Insurance Fee	\$18,000
Appraiser Fee	\$8,000
Bond Link	\$4,500
Total	\$329,675

**Estimates based on a not-to-exceed Par Amount of \$17,000,000*

SALES RESTRICTIONS

The following sales restrictions will apply. The Authority's sales restrictions can be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

The Loan will be non-transferable except within EFF and its affiliated entity, Equitable School Revolving Fund, LLC (ESRF), 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 EFF and/or ESRF;
3. EFF and ESRF will each be required to execute an Investor Letter;
4. Subsequent transfers of the Note will be limited to transfers between EFF and ESRF 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.

OTHER PROJECT DATA

TEFRA: Not applicable as this is a taxable loan.

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 and/or its sole member has been duly organized, is in good standing, is a disregarded subsidiary of 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.

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.

The legal Borrower will be VVE, a sole member subsidiary of Caliber East Bay Real Estate (CEBRE), a 501(c)(3) formed to support the activities of Caliber.

CEBRE is the initial Obligated Group Representative and the sole member of the California LLC associated with the project, VVE. VVE will be a single purpose California limited liability company wholly owned by CEBRE, with no assets other than the applicable Facilities and its rights under the lease to Caliber, which will be assigned to the Trustee. VVE will additionally serve as landlord to Caliber, which uses the facility to operate CMA. VVE was formed for the purpose of holding title to charter school facilities and is not expected to have any other assets or revenue available to it to make payments due under the Loan Agreement. Attached at Exhibit A is a schedule CMA's five-year Budget and Financial Positions.

STAFF RECOMMENDATION

Staff recommends the California School Finance Authority's (CSFA) Board approve Resolution Number 20-02 authorizing the issuance of an educational facility loan in an amount not to exceed \$17,000,000 to finance and refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and equipping of certain educational facilities located in Solano County, California for Caliber Public Schools.

1. **Applicant / Borrower:** Valle Vista Education, LLC
2. **Project:** Purchase and Reimbursement
3. **Amount of Financing:** Not to exceed \$17,000,000
4. **Maturity:** February 27, 2050
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** Estimated to be 3.66%
7. **Fees:** \$329,675 is the total Costs of Issuance
8. **Not an Unconditional Commitment:** The CSFA resolution shall not be construed as unconditional commitment to finance the Project, but rather CSFA's approval pursuant to the resolution conditioned upon entry by CSFA and the Borrower into a loan agreement, in form and substance satisfactory to CSFA and its counsel.
9. **Limited Time:** The Board's approval expires 12 months from the date of its adoption. Thus, CSFA and the Borrower must enter into the loan agreement no later than 12 months from such date. Once the approval has expired, the item must return to the Board for new approval.
10. **Loan Agreement Covenants:** N/A

APPENDIX A: FINANCIAL PROJECTIONS AND ENROLLMENT

ChangeMakers Academy Financial Projection Summary							
	Actual 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22	Projected 2022-23	Projected 2023-24	Projected 2024-25
Enrollment (ChangeMakers Academy)							
Total Enrollment	708	751	780	795	825	855	885
ADA	660.16	703.08	725.4	739.35	767.25	795.15	823.05
ADA %	93%	94%	93%	93%	93%	93%	93%
Revenue (ChangeMakers Academy)							
LCFF State Revenue	\$ 6,427,423	\$ 6,919,153	\$ 7,432,322	\$ 7,772,904	\$ 8,306,973	\$ 8,878,705	\$ 9,368,511
Federal Title Funding	\$ 208,143	\$ 207,411	\$ 229,310	\$ 233,720	\$ 242,540	\$ 251,359	\$ 260,179
SPEd Funding	\$ 437,450	\$ 480,151	\$ 508,657	\$ 531,037	\$ 563,421	\$ 599,339	\$ 630,242
Meal Funding	\$ 241,319	\$ 248,746	\$ 279,714	\$ 290,944	\$ 308,190	\$ 326,038	\$ 344,228
SB740	\$ 622,305	\$ 709,253	\$ 772,317	\$ 783,946	\$ 794,678	\$ 804,950	\$ 815,356
Other Public Revenue	\$ 377,712	\$ 286,414	\$ 306,020	\$ 314,101	\$ 326,266	\$ 339,320	\$ 350,587
Local	\$ 76,702	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ -	\$ -
Total Revenue	\$ 8,391,054	\$ 8,951,128	\$ 9,628,340	\$ 9,926,651	\$ 10,542,068	\$ 11,199,711	\$ 11,769,102
Expenses (ChangeMakers Academy)							
Salaries	\$ 3,729,371	\$ 4,265,814	\$ 4,457,828	\$ 4,616,345	\$ 4,779,419	\$ 4,947,169	\$ 5,119,718
Benefits	\$ 793,652	\$ 1,044,467	\$ 1,030,289	\$ 1,091,322	\$ 1,156,416	\$ 1,225,871	\$ 1,300,008
Other Operating Expenses (excl lease)	\$ 2,946,707	\$ 2,866,949	\$ 2,784,579	\$ 2,866,697	\$ 2,984,692	\$ 3,108,202	\$ 3,223,762
Lease Expense (*)	\$ 722,224	\$ 929,833	\$ 1,169,498	\$ 1,169,498	\$ 1,169,498	\$ 1,169,498	\$ 1,169,498
Total Expenses	\$ 8,191,954	\$ 9,107,063	\$ 9,442,194	\$ 9,743,861	\$ 10,090,025	\$ 10,450,740	\$ 10,812,986
Net Income (ChangeMakers Academy)	\$ 199,100	\$ (155,935)	\$ 186,146	\$ 182,790	\$ 452,043	\$ 748,970	\$ 956,117
School Lease Coverage							
Net Income, add back Depreciation + Lease Expense (**)	\$ 929,499	\$ 782,071	\$ 1,363,818	\$ 1,360,462	\$ 1,629,715	\$ 1,926,642	\$ 2,133,789
Lease Expense (*)	\$ 722,224	\$ 929,833	\$ 1,169,498	\$ 1,169,498	\$ 1,169,498	\$ 1,169,498	\$ 1,169,498
Lease Coverage Ratio	1.3x	0.8x	1.2x	1.2x	1.4x	1.6x	1.8x
Supporting Organization Debt Service Coverage							
Net Income, add back Depreciation + Interest (+)	\$ 10,720	\$ 361,266	\$ 1,013,540	\$ 1,010,421	\$ 1,007,239	\$ 1,003,994	\$ 1,000,684
Bond Debt Service (**)		\$ 273,368	\$ 820,104	\$ 820,104	\$ 820,104	\$ 820,104	\$ 820,104
Debt Service Coverage Ratio		1.3x	1.2x	1.2x	1.2x	1.2x	1.2x
Liquidity (ChangeMakers Academy)							
Ending Cash Balance	\$ 240,054	\$ 1,067,192	\$ 1,362,089	\$ 1,705,876	\$ 2,286,155	\$ 3,147,378	\$ 4,212,576
Expenses, add back Depreciation + Lease Expense	\$ 8,922,352	\$ 10,045,070	\$ 10,619,866	\$ 10,921,533	\$ 11,267,697	\$ 11,628,412	\$ 11,990,657
Days Cash on Hand	10 days	39 days	47 days	57 days	74 days	99 days	128 days
(*) Lease expense paid by ChangeMakers Academy to Valle Vista Education, LLC, a subsidiary of Caliber East Bay Real Estate, the supporting organization for Caliber Public Schools. This will be a full service lease as VVE, LLC will be paying for the utilities and insurance for the facility.							
(**) Reflects school cash flow available to cover lease expenses.							
(+) Valle Vista Education, LLC EBITDA. Reflects cash flow available for debt service.							
(++) Principle + interest due by VVE, LLC to the lender. 2019-20 amount is lower than future years because it is a partial year.							

**APPENDIX B:
SCHOOL GOVERNANCE**

Officers

Terence Johnson	CEO
Ric Zappa	Chief Schools Officer
Markus Mullarkey	COO
Rachel Weingarten	Lower School Leader, CMA
Asha Canady	Upper School Leader, CMA

Board of Directors

Jenifer Moses	Chair	Former Caliber CEO
Jonathan D. Mariner	Treasurer/CFO	Private Investor & Entrepreneur
Ron Beller	Secretary	Co-Founder Caliber, Investment Firm CEO
Robin DeGracia	Parent Representative	Strategy Development, AssetMark
Tony Adams	Board Member	Management Consultant
Carolyn Hack	Board Member	KIPP Foundation Senior Consultant
Nolan Highbaugh	Board Member	KIPP Foundation Legal Counsel