

\$13,250,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)
CHARTER SCHOOL REVENUE BONDS
(COLLEGE PREPARATORY MIDDLE SCHOOL)
SERIES 2020A \$12,600,000 (TAX-EXEMPT) AND 2020B \$650,000 (TAXABLE)
ITEM # - RESOLUTION 20-16

STAFF SUMMARY

EXECUTIVE SUMMARY

Applicant/Borrower:	CPMS Higher Ground, LLC	Par Amount Requested:	Not-to-Exceed *\$13,250,000
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Financing Term: 35 years for tax-exempt, maturing in 2055; 3 years for taxable, maturing in 2023	Interest Rate: 5% on the Tax-Exempt; 7% on the Taxable
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Applicant Description: CPMS Higher Ground, LLC is a limited liability company formed for the single purpose of supporting its sole member, College Preparatory Middle School, a 501(c)(3) nonprofit public benefit corporation.

Type of Financing: Tax-Exempt and Taxable Charter School Revenue Bonds

Project User:	College Preparatory Middle School	County Served:	San Diego County
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District in Which Project is Located:	La Mesa-Spring Valley School District	Charter Authorizer:	California State Board of Education
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Project Description: Acquisition of a facility currently being rented by College Preparatory Middle School.

Project Sites: 10269 Madrid Way, Spring Valley, 91977

Financing Team:		Financing Details:	
Bond Counsel:	Kutak Rock LLP	Type of Issue:	Charter School Revenue Bonds
Placement Agent:	BB&T	Tax Status:	Tax-Exempt & Taxable
Purchaser	RM Charter Master Fund LP	Maturity:	2023 (Taxable) & 2055 (Tax-Exempt)
Purchaser's Counsel:	Orrick, Herrington & Sutcliffe LLP	Credit Enhancement:	No
Borrower's Counsel:	Procopio	Credit Rating:	No
Issuer's Counsel:	Attorney General's Office	Fees:	See Costs of Issuance Table
Issuer:	California School Finance Authority		
Bond/ Trustee:	UMB Bank, NA		
Financial Advisor	Choice Advisors		

CSFA Analyst: Robby Biegler	Date of Staff Report: June 10, 2020
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Date of CSFA Board Meeting: June 25, 2020	Resolution Number: 20-16
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Staff Recommendation: Staff recommends the California School Finance Authority Board approve Resolution Number 20-16 authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$13,250,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain educational facilities located in San Diego County for College Preparatory Middle School.

BACKGROUND AND HISTORY

College Prep Middle School (CPMS) is a stand-alone middle school located in the community of Spring Valley in San Diego County. The school's charter was approved by the State Board of Education (BOE) in March of 2018 and is valid until June 30, 2023. CPMS has a self-imposed enrollment cap of 100 students per grade and an ongoing wait list. The school serves a student body that is 50% white, 28% Latinx, 10% African American, 5% Asian and 7% Mixed. Forty percent of CPMS's students qualify for Free and Reduced Priced Lunch, 8% are English Language Learners and 5% are Special Education students. Current and projected enrollments for CPMS are:

Grade	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
5	60	100	100	100	100	100
6	60	100	100	100	100	100
7	60	100	100	100	100	100
8	58	91	100	100	100	100
Total	238	391	400	400	400	400

The 2018-19 enrollment numbers are lower comparatively to the subsequent year and ongoing projections owed to the size constraints of the original CPMS facility. Since moving to a larger facility in the 2019-20 school year, CPMS was able to expand enrollment and faculty size.

CPMS's current charter petition was denied by the local school district, La Mesa Spring Valley School District (LMSVSD), which had initiated litigation against CPMS regarding its previous charter. The previous, now-closed, charter operated by CPMS was authorized by the Mountain Empire Unified School District (MEUSD), but operated at a location within—but at the very edge of—LMSVSD. CPMS and MEUSD followed the out-of-district notification process in place at that time with the support of LMSVSD, and contracted with LMSVSD for food services. When CPMS publicly indicated its intent to move their campus to the center of LMSVSD, and nearly double in size, thus potentially adversely affecting LMSVSD's already declining enrollment, LMSVSD sued MEUSD alleging that it did not follow the notification process correctly many years earlier. CPMS prevailed in the litigation. Thereafter, CPMS went to LMSVSD directly with a new charter (the current active charter) for that district's authorization in order to avoid any uncertainty. After denial at LMSVSD, CPMS appealed to the BOE, where the charter was authorized. School governance for CPMS is included as Appendix A.

PROJECT DESCRIPTION

The proceeds of the bonds will be used to (i) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of certain educational facilities located at 10269 Madrid Way, Spring Valley, California 91977; (ii) fund any reserve funds, capitalized interest and/or related working capital in connection with such bonds, as necessary; and (iii) pay certain costs of issuance of the bonds.

Site	Landlord	Location	Purpose	Amount
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College Preparatory Middle School	CPMS Higher Ground, LLC	10269 Madrid Way, Spring Valley, CA 91977	Acquisition	\$11,364,384
College Preparatory Middle School	CPMS Higher Ground, LLC	10269 Madrid Way Spring Valley, CA 91977	Capitalized Interest/Working Capital	\$150,000
Total Estimated Project Costs				\$11,514,384

CPMS will use the bond proceeds to acquire a 27,058- square foot, two-story, free standing school facility located on a two acre site in greater San Diego County. The facility has twenty classrooms and support areas, administrative offices, a cafeteria/multipurpose room, restrooms, a teacher workroom, a conference room, an IT room, a nurses station, and a playground and patio area that serves as an outdoor lunch space. There are also 48 regular and four designated disabled parking spaces.

The facility is currently owned, and leased to CPMS, by RM COLL PREP CA LLC (the Lessor). The Lessor provided CPMS with a term sheet to convert the lease, which had an option to purchase, to tax-exempt bonds. CPMS has two years remaining on their lease before they have the option to purchase the building from the Lessor. However, the Lessor is giving CPMS the option to purchase the building early if RM Charter Master Fund LP (RM Charter), a related entity, is the sole purchaser of the bonds. The conversion will provide annual savings on facility costs due to a 2.5% annually escalating lease payment. The proposed financing will provide annual savings to CPMS as well as eliminate lease escalators. CPMS will save between \$93,000 and \$1,060,000 annually over the life of the bonds on the conversion from lease to bond payment. Annual cost savings from the bond conversion is included as Appendix B.

RM Charter will serve as Bondholder Representative after issuance of the bonds. RM Charter has not requested the bonds to be rated. RM Charter is a division of Rosemawr Management, a registered investment advisor with the Securities and Exchange Commission focused exclusively on investing in the U.S. municipal market. Rosemawr Management is a frequent purchaser of charter school bonds, including those issued by CSFA, and have \$1.1 billion in assets under management.

COVID Note and 2020-21 Budget: For CPMS, the revenue cuts proposed in the May Revise will result in approximately \$400,000 in reduced revenue annually. Anticipating cuts, CPMS began to plan and make adjustments in 2019-20, and its 2020-21 proposed budgets. Additionally, CPMS has a significant surplus, positioning it well to adapt to cuts. Adjusting to the proposed cuts, CPMS has limited discretionary spending in materials and professional services and continues to maintain a surplus. Once the budget is finalized, CPMS will be more comfortable reviewing spending increases based on authorized funding. Additionally this proposed funding, with the exception of Cost of Issuance, will save the school between \$93,000 and \$1,060,000 annually over the life of the bonds.

FINANCING

The Bonds to be purchased by RM Charter, and will have a 35-year term on the tax-exempt bonds, and a three-year term on the taxable series. The Bonds will accrue interest at a rate of 5% on the tax exempt term and 7% on the taxable term. The facilities financed with proceeds of the Bonds will be leased to CPMS (Lessee), a 501(c)(3) nonprofit public benefit corporation, by CPMS Higher Ground, LLC, a limited liability company of which CPMS is the sole member formed for the exclusive purpose of supporting CPMS. Finances for CPMS are included as Appendix C.

Security and Source of Payment

The bonds will be secured by lease payments made by CPMS to CPMS Higher Ground, LLC and a deed of trust on the property. The lease payments will be paid directly to the bond trustee via the CSFA intercept pursuant to Education Code 17199.4.

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:	Series 2020A (Tax- Exempt)	Series 2020B (Taxable)	Total
Bond Proceeds:			
Par Amount	\$11,750,000	\$295,000	\$12,045,000
Total:	\$11,750,00	\$295,000	\$12,045,000
Uses:	Series 2020A (Tax- Exempt)	Series 2020B (Taxable)	Total
Project Fund Deposits:			
Facility Acquisition	\$11,364,384	\$0	\$11,364,384
Working Capital/or CAPI	\$150,000		\$150,000
	\$11,514,384	\$0	\$11,514,384
Other Fund Deposits:			
Capitalized Interest Fund	\$0	\$0	\$0
Debt Service Reserve Fund	\$0	\$0	\$0
	\$0	\$0	\$0
Delivery Date Expenses:			
Cost of Issuance	\$234,999.93	\$290,294.32	\$525,294.25
Underwriter's Discount	\$0	\$0	\$0
	\$234,999.93	\$290,294.32	\$525,294.25
Other Uses of Funds:			
Contingency	\$616.07	\$4,705.68	\$5,321.75
Total:	\$11,750,000	\$295,000	\$12,045,000

Total Costs of Issuance*

Expense	Amount
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Placement Agent Fee	\$29,737
Financial Advisor Fee	\$107,056
CDIAC Fee	\$2,974
Bond Counsel	\$100,000
Borrower's Counsel	\$115,000
Lender's Counsel	\$45,000
Disclosure Counsel	\$30,000
CSFA Issuance Fee	\$17,448
CSFA 1st Admin Fee	\$2,000
CSFA Issuer Fee - PFD Fee	\$8,000
Issuer's Counsel (AG)	\$7,500
Trustee & Dissemination Fee	\$5,000
Financial Printer Fee	\$4,000
Title Insurance Estimate	\$24,580
Contingency	\$27,000
Total	\$525,295

**Estimates based on a not-to-exceed Par Amount of \$13,250,000*

There is no debt service reserve fund as RM Charter and Rosemawr Management are not requiring it.

SALES RESTRICTIONS

The following sales restrictions will apply to the financing given the bonds are nonrated. 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 Qualified Institutional Buyers (QIBs) and Accredited Investors (AIs).
3. The initial Bond purchaser 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 Section 17199.4 of the Education Code.

OTHER PROJECT DATA

Tax Equity and Fiscal Responsibility Act (TEFRA): The TEFRA Notice was published on the CSFA Webpage on June 18, 2020. The TEFRA hearing will take place on Thursday, June 25, 2020. Staff does not anticipate any comments but will provide an update to the Board if any are received.

Due Diligence Undertaken to Date: No information disclosed cause CSFA 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.

Additionally, section 17183.5 of the CSFA Act states that it is the intent of the Legislature to provide financing only for projects demonstrated by the participating party to be financially feasible. In demonstrating financial 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 this section shall be construed to imply that any project is required to produce revenue in order to be financed under this chapter.

Borrower Financial Data: The Borrower is a California limited liability company formed as a support organization for charter schools formed and controlled by CPMS, its sole member. CPMS has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code. For federal tax purposes, the Borrower is treated as a “disregarded entity” of CPMS because CPMS is its sole member.

The limited liability company is a single purpose entity with no assets other than the applicable Facility and its rights under the Lease, which will be assigned to the Trustee. The limited liability company was formed for the purpose of owning facilities and is not expected to have any other assets or revenue available to it to make payments due under the Loan Agreement.

STAFF RECOMMENDATION

Staff recommends the California School Finance Authority’s (CSFA) Board approve Resolution Number 20-16 authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$13,250,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain educational facilities located in San Diego County, California for use by College Preparatory Middle School.

1. **Applicant / Borrower:** CPMS Higher Ground, LLC
2. **Project:** Acquisition
3. **Amount of Financing:** Not to exceed \$13,250,000
4. **Maturity:** June 15, 2055
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** 5% on tax-exempts and 7% on taxable
7. **Fees:** \$525,293.75 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 must issue the bonds 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:
SCHOOL GOVERNANCE**

Officers

Christina M. Callaway	Director of School Business
Mitchell S. Miller	Director of School Operations

Board of Directors

Corey Meitchik	Board President
Kathy Kinsella	Secretary
Alex Brizolis	Trustee
Lisa Dietrich	Trustee
Garth Hebbler	Trustee

**APPENDIX B:
ANNUAL COST SAVINGS**

	Annual Lease Payment	Bond Debt Service*	Savings after Bond Issuance
6/30/2021	781,338.00	661,121.11	120,216.89
6/30/2022	800,871.45	707,550.00	93,321.45
6/30/2023	820,893.24	705,200.00	115,693.24
6/30/2024	841,415.57	742,500.00	98,915.57
6/30/2025	862,450.96	744,750.00	117,700.96
6/30/2026	884,012.23	741,500.00	142,512.23
6/30/2027	906,112.54	743,000.00	163,112.54
6/30/2028	928,765.35	744,000.00	184,765.35
6/30/2029	951,984.48	744,500.00	207,484.48
6/30/2030	975,784.10	744,500.00	231,284.10
6/30/2031	1,000,178.70	744,000.00	256,178.70
6/30/2032	1,025,183.17	743,000.00	282,183.17
6/30/2033	1,050,812.74	741,500.00	309,312.74
6/30/2034	1,077,083.06	744,500.00	332,583.06
6/30/2035	1,104,010.14	741,750.00	362,260.14
6/30/2036	1,131,610.39	743,500.00	388,110.39
6/30/2037	1,159,900.65	744,500.00	415,400.65
6/30/2038	1,188,898.17	744,750.00	444,148.17
6/30/2039	1,218,620.62	744,250.00	474,370.62
6/30/2040	1,249,086.14	743,000.00	506,086.14
6/30/2041	1,280,313.29	746,000.00	534,313.29
6/30/2042	1,312,321.12	743,000.00	569,321.12
6/30/2043	1,345,129.15	744,250.00	600,879.15
6/30/2044	1,378,757.38	744,500.00	634,257.38
6/30/2045	1,413,226.32	744,500.00	668,726.32
6/30/2046	1,448,556.97	743,750.00	704,806.97
6/30/2047	1,484,770.90	742,000.00	742,770.90
6/30/2048	1,521,890.17	745,250.00	776,640.17
6/30/2049	1,559,937.42	745,000.00	814,937.42
6/30/2050	1,598,935.86	743,500.00	855,435.86
6/30/2051	1,638,909.26	740,750.00	898,159.26
6/30/2052	1,679,881.99	741,750.00	938,131.99
6/30/2053	1,721,879.04	741,250.00	980,629.04
6/30/2054	1,764,926.01	744,250.00	1,020,676.01
6/30/2055	1,809,049.16	745,500.00	1,063,549.16
Total	42,917,495.75	25,868,621.11	17,048,874.64

*Preliminary and subject to change

APPENDIX C: ESTIMATED BUDGET PROJECTIONS AND ENROLLMENT

College Prep Middle School – Financial Projections

	2019-20 Prior Year	2020-21 Budget	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
LCFF COLA	n/a	-7.92%	0.00%	0.00%	0.00%	0.00%
Non-LCFF Revenue COLA	n/a	n/a	0.00%	0.00%	0.00%	0.00%
Expense COLA	n.a	2.00%	2.00%	2.00%	2.00%	2.00%
Enrollment	-	400	400	400	400	400
Average Daily Attendance	380	380	380	380	380	380
Revenues						
State Aid - Revenue Limit	3,283,702	3,022,107	3,015,222	3,014,834	3,014,834	3,014,834
Federal Revenue	203,498	48,875	50,000	50,000	50,000	50,000
Other State Revenue	712,968	686,265	686,269	686,269	686,269	686,269
Other Local Revenue	15,611	-	-	-	-	-
Total Revenue	4,215,779	3,757,247	3,751,491	3,751,103	3,751,103	3,751,103
Expenses						
Certificated Salaries	1,424,056	1,450,301	1,479,307	1,508,893	1,539,071	1,569,853
Classified Salaries	111,597	120,370	122,777	125,233	127,737	130,292
Benefits	365,134	386,172	393,854	401,688	409,678	417,829
Books and Supplies	271,443	99,168	101,151	103,174	105,238	107,343
Subagreement Services	57,915	75,921	77,439	78,988	80,568	82,179
Operations and Housekeeping	131,673	175,033	178,534	182,104	185,746	189,461
Facilities, Repairs and Other Leases	1,231,546	702,233	749,484	747,973	786,128	789,251
Professional/Consulting Services	172,161	157,866	158,732	159,791	160,884	161,998
Depreciation	4,785	5,024	5,024	5,024	5,024	1,791
Interest	-	2,482	601	-	-	-
Total Expenses	3,770,311	3,174,569	3,266,903	3,312,869	3,400,075	3,449,996
Surplus (Deficit)						
Fund Balance, Beginning of Year	445,468	582,678	484,588	438,234	351,028	301,106
Fund Balance, End of Year	473,300	918,768	1,501,446	1,986,034	2,424,268	2,775,296
	918,768	1,501,446	1,986,034	2,424,268	2,775,296	3,076,402
	24%	47%	51%	73%	82%	89%

	2019-20 Prior Year	2020-21 Budget	2021-22 Forecast	2022-23 Forecast	2023-24 Forecast	2024-25 Forecast
Cash (CPMS)	1,575,418	1,125,607	1,181,086	2,205,762	2,561,814	2,864,712
Cash (Home Office)	1,364,000	1,364,000	1,318,000	1,272,000	1,256,667	1,256,667
Total Cash	2,939,418	2,489,607	2,499,086	3,477,762	3,818,481	4,121,379
Total Expenses	3,770,311	3,174,569	3,266,903	3,312,869	3,400,075	3,449,996
Adjustment: Depreciation Expenses	4,785	5,024	5,024	5,024	5,024	1,791
Adjustment: Rent	-	661,121	707,550	705,200	742,500	744,750
Plus Debt Service Payments	-	661,121	707,550	705,200	742,500	744,750
Adjusted Operating Expenses	3,765,527	3,169,545	3,261,880	3,307,845	3,395,051	3,448,205
Operating Expenses / Days (365)	10,317	8,684	8,937	9,063	9,302	9,447
Days Cash on Hand	285	287	280	384	411	436

*Preliminary and subject to change

1. 400 enrollment assumes 100 students per grade level.