

\$21,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)
CHARTER SCHOOL REVENUE BONDS
(CLASSICAL ACADEMIES OBLIGATED GROUP)
SERIES 2020A \$20,500,000 (TAX-EXEMPT) AND 2020B \$500,000 (TAXABLE)
ITEM # 6- RESOLUTION 20-20

STAFF SUMMARY

| EXECUTIVE SUMMARY | | | |
|---|--|---|--|
| Applicant/Borrower: | Partnering with Parents, LLC | Par Amount Requested: | Not-to-Exceed * \$21,000,000 |
| Financing Term: 35 years for tax-exempt, maturing in 2055; 3 years for taxable, maturing in 2023 | | Interest Rate: 4.65% on the Tax-Exempt; 5% on the Taxable | |
| Applicant Description: Partnering with Parents, LLC is a limited liability company formed for the single purpose of supporting its sole member, The Classical Academy, Inc., a 501(c)(3) nonprofit public benefit corporation. | | | |
| Type of Financing: Tax-Exempt and Taxable Charter School Revenue Bonds | | | |
| Project User: | The Classical Academy, Inc. | County Served: | San Diego County |
| District in Which Project is Located: | Escondido Union School District and Escondido Union High School District | Charter Authorizer: | Escondido Union School District and Escondido Union High School District |
| Project Description: Acquisition, construction, expansion, rehabilitation, renovation, furnishing and equipping of charter school facilities located at the addresses listed below. | | | |
| Project Sites: 1) 2950 South Bear Valley Parkway, Escondido; 2) 130 Woodward Avenue, Escondido; and 3) 235/237 West Washington Avenue, Escondido | | | |
| Financing Team: | | Financing Details: | |
| Bond Counsel: | Stradling Yocca Carlson & Rauth | Type of Issue: | Charter School Revenue Bonds |
| Underwriter: | RBC Capital Markets | Tax Status: | Tax-Exempt & Taxable |
| Borrower's Counsel: | Young Minney & Corr | Maturity: | 2023 (Taxable) & 2055 (Tax-Exempt) |
| Issuer's Counsel: | Attorney General's Office | Credit Enhancement: | No |
| Issuer: | California School Finance Authority | Credit Rating: | BB+ (Expected) |
| Bond/ Trustee: | Wells Fargo, NA | Fees: | See Costs of Issuance Table |
| Financial Advisor | Campanile Group, Inc. | | |
| CSFA Analyst: Robby Biegler | | Date of Staff Report: July 22, 2020 | |
| Date of CSFA Board Meeting: July 30, 2020 | | Resolution Number: 20-20 | |
| Staff Recommendation: Staff recommends the California School Finance Authority Board approve Resolution Number 20-20 authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$21,000,000 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 The Classical Academy, Inc. | | | |

BACKGROUND AND HISTORY

The Classical Academy (TCA) is a charter school network that currently operates three schools throughout greater San Diego County; The Classical Academy Elementary School (TK-8); The Classical Academy High School (9-12); and The Classical Academy Vista (TK-8). Classical Academy Vista is not part of the current TCA obligated group. TCA governance is included as Appendix A.

Partnering with Parents, LLC (PWP) a California 501(c)(3) corporation of which TCA is the sole member, will be the Borrower and will lease the Series 2020 Facilities to TCA.

The Classical Academy Elementary School (TCAES) began operating in the fall of 1999 in a small church building in northwest Escondido. TCAES currently serves approximately 1,360 students in grades K-8. TCAES offers two award winning and State recognized educational models of independent study. Although both of these two distinct models combine elements of classroom-based and non-classroom-based instruction, for purposes of Average Daily Attendance (ADA) calculations (due to the regulatory definition of non-classroom-based ADA), both models are considered to be non-classroom-based programs. While the state assigned label of "non-classroom" based programming may give the impression that facilities are not needed or being used by TCA schools, TCA utilizes many facilities to support the academic needs of students. As such, while there are only two schools in the current TCA obligated group, there are five facilities serving those two schools.

The charter for TCAES is K-8, however the middle schools operates out of facilities separate from TCAES. For purposes of this staff summary the middle schools is referred to as The Classic Academy Middle School (TCAMS). The Classical Academy High School (TCAHS) is a comprehensive four-year charter high school. It began operating in the fall of 2006 and graduated its first senior class in the spring of 2009. TCAHS is located within the Escondido Union High School District. TCAHS currently serves approximately 1,244 students in grades 9-12. TCAHS offers a unique blend of classroom participation with highly qualified teachers as well as exemplary independent study programming. Students at the High School have three programs from which to choose: Studio Campus, Personalized Learning Campus, and Independent Study. The charters for both TCAES and TCAHS have been authorized by the Escondido Union High School District. The charter for TCAES has been reauthorized in 2004, 2009, 2014 and 2019. The charter for TCAHS has been reauthorized in 2011, 2015 and 2020.

The current enrollment outlook for the school includes:

| CURRENT & PROJECTED ENROLLMENT | | | | | |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| GRADE | FY 19/20 | FY 20/21 | FY 21/22 | FY 22/23 | FY 23/24 |
| TK | 23 | 30 | 30 | 30 | 30 |
| K | 118 | 135 | 135 | 135 | 135 |
| 1 | 107 | 130 | 130 | 130 | 140 |
| 2 | 127 | 140 | 140 | 140 | 145 |
| 3 | 137 | 140 | 140 | 140 | 145 |
| 4 | 120 | 140 | 140 | 140 | 144 |
| 5 | 125 | 140 | 140 | 140 | 140 |
| 6 | 173 | 165 | 165 | 165 | 165 |
| Elementary | 930 | 1020 | 1020 | 1020 | 1044 |
| 7 | 212 | 245 | 255 | 255 | 260 |
| 8 | 218 | 245 | 245 | 255 | 257 |
| Middle | 430 | 490 | 500 | 510 | 517 |
| 9 | 297 | 340 | 340 | 362 | 382 |
| 10 | 330 | 355 | 355 | 362 | 382 |
| 11 | 324 | 370 | 370 | 370 | 377 |
| 12 | 293 | 355 | 355 | 368 | 373 |
| High | 1244 | 1420 | 1420 | 1462 | 1514 |
| TOTAL | 2604 | 2930 | 2940 | 2992 | 3075 |

The material increases in enrollment for TCA are attributed to the aforementioned independent study program, which has seen significant new student interest in the COVID era.

CSFA has issued two previous bonds for TCA. In 2013 CSFA issued \$25,175,000 in bonds for facilities for TCAMS and TCAHS. In 2017 CSFA issued \$28,825,000 in bonds to refinance the 2013 issuance.

| School | Site | Bonds | Obligated Group |
|--|---|-------------------|------------------------|
| Classical Academy, High School (9-12) | 207 E. Pennsylvania Avenue, Escondido | 2013 ² | Yes |
| Classical Academy, Middle School ¹ (7-8) | 144/146 Woodward Avenue, Escondido | 2013 ² | Yes |
| Classical Academy, High School (9-12) Personalized Learning Campus | 130 Woodward Avenue, Escondido | 2020 | Yes |
| Classical Academy, Elementary School (TK-8) | 2950 S. Bear Valley Parkway, Escondido | 2020 | Yes |
| Classical Academy, Middle School ¹ (7-8) | 235/237 West Washington Avenue, Escondido | 2020 | Yes |
| Classical Academy, Vista (TK-8) | 4010 Mystra Way, Oceanside | n/a | No |

(1) Part of the Elementary School Charter

(2) Refinanced with 2017 Bonds

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 2950 South Bear Valley Parkway, Escondido, California, 13 Woodward Ave. Escondido, CA, and 235-237 West Washington Ave., Escondido, CA; (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 |
|---|-----------------------------|---|-------------|---------------------|
| The Classical Academy Elementary School | Partnering with Parents LLC | 2950 South Bear Valley Parkway Escondido, CA | Acquisition | \$9,000,000 |
| The Classical Academy High School | Partnering with Parents LLC | 130 Woodward Ave. Escondido, CA | Acquisition | \$6,077,000 |
| The Classical Academy Middle School | Partnering with Parents LLC | 235-237 West Washington Ave. Escondido, CA | Acquisition | \$1,150,000 |
| The Classical Academy Middle School | Partnering with Parents LLC | 235-237 West Washington Ave. Escondido, CA | Renovation | \$500,000 |
| Total Estimated Project Costs | | | | \$16,727,000 |

TCA and TCAHS will be purchasing their current leased facilities at South Bear Valley Parkway, Woodward Ave. and West Washington Ave.

Bear Valley: The Bear Valley facility (Bear Valley) is 28,300 square feet and currently occupied by TCAES. The facility features 26 classrooms, 15 offices and 15 cubicles, as well as a faculty room and a swimming pool. Bear Valley is currently owned by FUGU, LLC and TCA is exercising a purchase option built into the lease.

West Washington: The West Washington facility (West Washington) is 1,758 square feet and currently occupied by TCAMS. The facility includes three classrooms, two closets, four offices and two large communal spaces. West Washington is currently owned by Baskets Unlimited, LLC and TCA is a purchase option negotiated during initial lease discussions.

Woodward Avenue: The Woodward Ave. facility (Woodward Ave.) is 38,873 square feet and currently occupied by the TCAHS Personalized Learning Campus. The facility features 23 classrooms, two auditorium spaces and 12 offices. Woodward Ave. is currently owned by Victor Bagdasar and TCAHS is exercising a purchase option built into the lease.

FINANCING

The bonds will be issued in two series: (1) Series 2020A (tax-exempt) will be approximately \$20,500,000 and (2) Series 2020B (taxable) will be approximately \$500,000 (Bonds). The tax-exempt series will be issued to finance items eligible for use of tax-exempt bond proceeds. The taxable series will be used to finance the costs of issuance in excess of 2% of the tax-exempt series. The tax-exempt series is expected to consist of three term bonds maturing on June 25, 2030, June 25, 2040, and June 25, 2055. The taxable series is expected to be issued as one term bond, maturing on June 1, 2022.

The facilities financed with proceeds of the Bonds will be leased to 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 TCAES, TCAMS and TCAHS.

TCA finances are included as Appendix B.

Security and Source of Payment

The bonds will be secured by lease payments made by TCA to Partnering with Parents, 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.

As additional security and in connection with the issuance of the Bonds, the lessee will provide instructions to the State Controller's Office to make an apportionment to the Trustee with respect to TCAES, TCAMS, and TCAHS 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. 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 Bonds. Under the laws of the State of California, no party, including the lessee, 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 SCO pursuant to the Intercept.

COVID Note and 2020-21 Budget: TCA's budget planning included a 10% funding cut and this budget draft was reviewed and approved by the TCA governing board. The budget was then adopted at a public meeting on May 18, 2020. TCA fully expects that with the formal passing of the state budget in August 2020, the organization will review current state funding and adjust the budget as needed. At this time, the Governor has signed a budget that does not include cuts, however it does include deferrals. These deferrals will create opportunities to utilize existing TCA reserves to successfully weather these times and sustain current organizational good standing.

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 | \$17,300,000 | \$205,000 | \$17,505,000 |
| Bond Premium | \$1,441,234.50 | | \$1,441,234.50 |
| Total: | \$18,741,234.50 | \$205,000 | \$18,946,234.50 |
| Uses: | Series 2020A (Tax-Exempt) | Series 2020B (Taxable) | Total |
| Project Fund Deposits: | | | |
| Bear Valley Acquisition | \$9,000,000 | \$0 | \$11,364,384 |
| Woodward Acquisition | \$6,077,000 | \$0 | \$6,077,000 |
| Washington Acquisition | \$1,150,000 | \$0 | \$1,150,000 |
| Washington Renovation | \$500,000 | | \$500,000 |
| | \$16,727,000 | \$0 | \$16,727,000 |
| Other Fund Deposits: | | | |
| Debt Service Reserve Fund | \$1,637,443 | \$19,403.23 | \$1,656,846.23 |
| | \$1,637,433 | \$19,403.23 | \$1,656,846.23 |
| Delivery Date Expenses: | | | |
| Cost of Issuance | \$258,054.02 | \$125,450.98 | \$383,505 |
| Underwriter's Discount | \$116,770.69 | \$56,767.17 | \$173,537.86 |
| | \$374,824.71 | \$182,218.15 | \$557,042.86 |
| Other Uses of Funds: | | | |
| Contingency | \$1,966.79 | \$3,378.62 | \$5,345.41 |
| Total: | \$18,741,234.50 | \$205,000 | \$18,946,234.50 |

Total Costs of Issuance*

| Expense | Amount |
|-----------------------------|---------------------|
| Placement Agent Fee | \$29,737 |
| Financial Advisor Fee | \$25,000 |
| CDIAC Fee | \$2,974 |
| Bond Counsel | \$85,000 |
| Borrower's Counsel | \$50,000 |
| Disclosure Counsel | \$65,000 |
| CSFA Issuance Fee | \$18,752.50 |
| CSFA 1st Admin Fee | \$2,625.75 |
| CSFA Issuer Fee - PFD Fee | \$5,000 |
| Issuer's Counsel (AG) | \$7,500 |
| Underwriter's Discount | \$173,537.86 |
| Rating Agency Fee | \$35,000 |
| Trustee & Dissemination Fee | \$8,000 |
| Financial Printer Fee | \$5,000 |
| Title Insurance Estimate | \$30,000 |
| Appraiser Fee | \$15,000 |
| Contingency | \$25,500 |
| Total | \$557,042.86 |

**Estimates based on a not-to-exceed Par Amount of \$21,000,000*

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 July 23, 2020. The TEFRA hearing will take place on Thursday, July 30, 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 TCA, its sole member. TCA 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 20-20 authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$21,000,000 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 The Classical Academy and The Classical Academy High School.

1. **Applicant / Borrower:** Partnering with Parents, LLC
2. **Project:** Acquisition and Renovation
3. **Amount of Financing:** Not to exceed \$21,000,000
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:** \$557,042.86 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

| | |
|-------------------|-----------|
| Mark Reardon | President |
| Mark Donar | Secretary |
| Patty Huerta | Treasurer |
| Paul Donovan, Jr. | Member |
| Angie Mosteller | Member |

Board of Directors

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

**APPENDIX B:
ESTIMATED BUDGET PROJECTIONS AND ENROLLMENT**

The Classical Academies, Inc.

OBLIGATED GROUP PROJECTIONS THROUGH FY 23/24

| REVENUE | FY 20/21 | FY 21/22 | FY 22/23 | FY 23/24 | |
|--|-------------------|-------------------|-------------------|-------------------|-----|
| LCFF Revenue | 26,439,950 | 27,189,847 | 28,068,635 | 28,846,564 | |
| Special Education - Federal | - | - | - | - | |
| Mandated Cost Block Grant | 79,177 | 82,580 | 82,888 | 80,762 | |
| Lottery (Unrestricted & Restricted) | 514,398 | 534,276 | 552,085 | 526,361 | |
| Other Income | 486,950 | 506,950 | 507,950 | 509,000 | |
| Total Revenue | 27,520,475 | 28,313,653 | 29,211,558 | 29,962,687 | |
| Less General Fund Contribution | (1,256,860) | (1,273,244) | (1,413,150) | (1,456,958) | |
| Net Revenue | 26,263,615 | 27,040,409 | 27,798,408 | 28,505,729 | |
| EXPENSES | | | | | |
| Certificated Salaries | 8,221,765 | 8,602,589 | 8,814,882 | 9,014,856 | |
| Classified Salaries | 2,109,948 | 2,189,834 | 2,225,713 | 2,272,616 | |
| STRS | 1,252,614 | 1,339,624 | 1,426,311 | 1,424,784 | |
| PERS | 498,325 | 513,058 | 618,254 | 644,270 | |
| Health/Welfare/Medicare | 1,536,788 | 1,617,033 | 1,726,539 | 1,831,833 | |
| Other Benefits | 156,010 | 162,965 | 166,712 | 170,441 | |
| Books & Supplies | 916,709 | 1,001,959 | 957,015 | 963,279 | |
| Services & Other Operations | 3,728,892 | 3,711,239 | 3,843,321 | 3,963,672 | |
| Facility Leases 2017/New Bond Costs | 3,102,942 | 3,035,505 | 3,035,671 | 3,025,272 | |
| Overhead Allocation | 2,695,562 | 2,695,562 | 2,640,004 | 2,649,636 | |
| Indirect Support for Special Ed | (16,200) | (16,200) | (16,399) | (16,608) | |
| Depreciation & Amortization | 196,066 | 196,066 | 199,016 | 202,114 | |
| Total Expense | 24,399,421 | 25,049,234 | 25,637,039 | 26,146,165 | |
| Net Income (Loss) | 1,864,194 | 1,991,175 | 2,161,368 | 2,359,565 | A |
| Add: Depreciation & Amortization | 196,066 | 196,066 | 199,016 | 202,114 | |
| Add: Facility Leases 2017/New Bond Costs | 3,102,942 | 3,035,505 | 3,035,671 | 3,025,272 | |
| Net Income Available for Lease Payments | 5,163,202 | 5,222,746 | 5,396,055 | 5,586,951 | B |
| Facility Leases 2017/New Bond Costs | 3,102,942 | 3,035,505 | 3,035,671 | 3,025,272 | C |
| Lease Payment Coverage | 1.66 | 1.72 | 1.78 | 1.85 | B/C |