

CALIFORNIA SCHOOL FINANCE AUTHORITY
EDUCATIONAL FACILITIES REVENUE BONDS
(VAUGHN NEXT CENTURY LEARNING CENTER), SERIES 2010A
QUALIFIED ZONE ACADEMY BONDS
(DIRECT SUBSIDY BONDS)

EDUCATIONAL FACILITIES REVENUE BONDS
(VAUGHN NEXT CENTURY LEARNING CENTER), SERIES 2010B
QUALIFIED SCHOOL CONSTRUCTION BONDS
(DIRECT SUBSIDY BONDS)

EXECUTIVE SUMMARY

RESOLUTION 10-15

Borrower:	Vaughn Next Century Learning
Loan Amount:	Not to exceed \$9,000,000
Expected Issuance:	July 15, 2010
Project:	<p>The Project will include expansion of a high school facility operated by the Borrower in order to serve an additional approximately 189 students in the 9th through 12th grades and the construction of a new elementary school operated by the Borrower serving approximately 480 students in Kindergarten through the 5th grade. The Project will be located in Pacoima, California.</p> <p>A portion of the Bond proceeds may also be used to finance working capital needs.</p>
Bond Type:	Revenue Bond, Qualified School Construction Bonds (\$3.5 million) and Qualified Zone Academy Bonds (\$5 million) (Direct Subsidy) (the "Bonds")
Credit Enhancement:	East-West Bank direct pay letter of credit "wrapped" by Federal Home Loan Bank of San Francisco
Expected Rating(s):	Aaa/AAA
Structure:	Term Bond maturing in approximately ten years
Sale Method:	Negotiated Public Offering
Senior Manager:	RBC Capital Markets, Inc.
Bond and Disclosure Counsel:	Orrick Herrington & Sutcliffe LLP

I. Background

The State of California has allocated to the California School Finance Authority (“CSFA”) Qualified School Construction Bonds (“QSCBs”) in the approximate amount of \$73 million. In August 2009, CSFA accepted applications from qualifying charter schools that were interested in taking advantage of the federal subsidies afforded by QSCBs via a conduit issuance through CSFA. Vaughn Next Century Learning Center (the “Borrower”) was awarded \$3.5 million of QSCB borrowing authority on a preliminary basis in October 2009 and is now ready to proceed with a financing, pending approval of the transaction and bond documents by CSFA.

Federal tax legislation enacted in 1997 (Section 226 of H.R. 2014 The Taxpayer Relief Act of 1997, Section 1397E of the *Internal Revenue Code*) allows for certain schools, known as Qualified Zone Academies, to finance the equipping and/or renovating of school facilities, developing course materials and training teachers on an interest-free basis through the allocation of tax credits (through the issuance of Qualified Zone Academy Bonds or QZAB). Vaughn Next Century Learning Center was awarded \$5 million of QZAB borrowing authority by the California Department of Education. The Borrower may elect to take up to an additional \$500,000 taxable loan to pay for cost of issuance associated with the bond transaction.

II. Structure

CSFA will issue the Bonds, the proceeds of which will be loaned to the Borrower pursuant to a Loan Agreement by and between CSFA and the Borrower, through a negotiated, public offering. The Bonds will be sold as taxable obligations with a single “bullet” maturity in 2020. Prior to this date, the Bonds will pay semi-annual interest only. CSFA, acting at the request of the Borrower, will elect for the Department of the Treasury to transfer to the trustee on a periodic basis a federal subsidy payment (based on current law) equal to the lesser of (i) 100% of the interest payable on the Bonds; or (ii) the interest that would have been payable on the Bonds if it were computed based on the rate applicable for qualified tax credit bonds in effect at the time of sale.

III. Security and Source of Payment

Semi-annual interest and principal, as applicable, will be paid by East-West Bank under the terms of an irrevocable, direct pay letter of credit. The letter of credit will be further “wrapped” by the Federal Home Loan Bank of San Francisco by means of a standby letter of credit and is expected to result in a “AAA”-rating for the transaction. Ultimately, the Borrower will be responsible for reimbursing all payments made by East-West Bank as well as any associated letter of credit fees (CSFA is obligated to pay the principal of, premium, if any, and interest on the Bonds and “Credit Provider Reimbursement Obligations” solely from the payments received from the Borrower under the Loan Agreement). In addition, Borrower loan payments will also fund annual “sinking fund” deposits into an account held by the bond trustee (BNY Mellon) in advance of the final stated maturity of the Bonds. Such deposit amounts, including interest earnings thereon, will be sufficient to ensure that adequate funds are on hand to reimburse City National Bank for the repayment of the principal payment due upon the final stated maturity of the Bonds in 2020. The Borrower will utilize the State Controller’s Intercept Mechanism (Section 17199.4, Education Code) to transfer a portion of its annual state allotment of revenue limit funds (i.e., the general purpose entitlement component of its

annual principal apportionment). The State Controller will be provided with a schedule at closing detailing funds to be intercepted and forwarded to the bond trustee on a periodic basis. Such amounts will cover the aforementioned interest payments, letter of credit fees, and required sinking fund deposits and will be transferred by the trustee to East-West Bank. Federal subsidy payments will be made by the Department of the Treasury to the trustee. Certain excess amounts may be periodically transferred to the Borrower. A flow of funds has been attached as Exhibit A.

IV. The Borrower

Vaughn Next Century Learning Center (the “Borrower”), a California public charter school has began operation on July 1, 1993. Its charter has been renewed in 1998, 2003 and 2008. The Borrower currently has four (4) campuses, all located within a four-block radius. Vaughn Street Elementary (former name) was built by the Los Angeles Unified School District and opened in 1950. By 1990, it served 1,050 K-6 students on a multi-track year-round schedule (3 tracks and 163 school days) and transported 160 students to other campuses due to overcrowding. Vaughn Street School was renamed Vaughn Next Century Learning Center in 1993 when it earned charter status under the California Charter School Law (AB 544).

Vaughn Next Century Learning Center, located in Pacoima, is a large urban public school within the Los Angeles Unified School District (LAUSD). Since the early 1970’s, low student achievement had been a pattern. In 1993, tired of being helpless and hopeless, Vaughn Next Century Learning Center became the first conversion charter school in the nation and was authorized by LAUSD. The charter was renewed in 1998 and again in 2003.

This previously failing elementary public school is now a full-service, community-based, K-12th charter school. The school serves 2,400 neighborhood students that include 96.9% eligible for free meals, 2.8% eligible for reduced meals, 72% English learners, 7.3% students with disabilities, 98% Hispanic, 1.6% African-American, 0.1% Asian, 0.3% Other White. Vaughn Next Century Learning Center was awarded the California Distinguished Schools Award in 1996 and the National Blue Ribbon Schools Award in 1997.

Each year, Vaughn Next Century Learning Center has met the growth target established by the California Academic Performance Index (API).

<u>Year</u>	<u>API</u>	<u>Statewide Ranking</u>	<u>Similar School Ranking</u>
1999	443	-	-
2000	494	-	-
2001	591	2	8
2002	609	2	9
2003	658	2	10
2004	677	3	9
2005	700	3	9
2006	706	3	9
2007	715	3	10
2008	735	3	10
2009	752	4	10

Vaughn Next Century Learning Center is a large, urban, full-service, public charter school that provides maximum learning opportunities to students (Kindergarten - Grade 12) so they will be successful academically, physically, and socially; specifically, Vaughn Next Century Learning Center will: 1) Prepare students to master grade level standards, think critically, and be ready for post-secondary learning; 2) Reduce social stressors that negatively impact child and family development, including poverty; 3) Create a professional and caring community among staff, families, and community; and 4) Become a model for school reform locally, nationally and globally.

Vaughn Next Century Learning Center’s students will possess proficient literacy skills, English fluency and technological competence. They will demonstrate knowledge and application of the arts, cultures, literature, history and social science, health, mathematics, communication, science, problem solving and work ethics. They will value friendship, responsibility, cultural diversity, quality of life and the democratic process. They will become well informed of our interconnected world, pursue higher education and seek a professional career.

V. Preliminary Sources and Uses

Sources	
Qualified School Construction Bonds	\$3,500,000
Qualified Zone Academy Bonds	\$5,000,000
Borrower Equity	\$177,328
Total Sources	\$8,677,328

Uses	
Project Fund	\$8,280,172
Cost of Issuance	\$347,328
Credit Enhancement Fees	\$49,828
Total Uses	\$8,677,328

VI. The Project

The Projects will include the Infrastructure Academy and the Elementary Academy for a Global and Green Generation.

The Infrastructure Academy (QZAB)

The Infrastructure Academy is designed to prepare young people for the career opportunities of the emerging green economy. The Infrastructure Academy will provide inquiry-oriented, career and technical education courses that meets “a-g” science standards. The Academy will expose students to the science, technology, and careers of infrastructure while reinforcing English language development, math, science and technology through real-world application. Students will be provided with job applicable skills and an understanding of the applicability of these skills to careers while completing sustainability projects.

The Academy will be located at 11505 Herrick Avenue, Pacoima, 91331. It will add seven classrooms to the high school campus, of which three are green classrooms with living roofs (CHPS-approved, per California High Performance School standards). It will link the new academy to the high school campus via walkways and green areas, add parking spaces, extend current outdoor cafeteria to accommodate more students, upgrade current network system to connect new academy to all other campuses, add outdoor space for project work areas and experiments, and add restrooms and drinking fountains. The anticipated completion date is September 2010.

The Borrower will use the Bonds proceeds from the sale of the QZAB Bonds for expenditures related to the establishment of the Infrastructure Academy for 1) salaries and benefits for project management, accounting and audits; 2) materials, supplies, equipment and furnishing; 3) contracts for environmental assessment, soil tests, inspection, architect fees; and 4) site improvement, modernization, alteration and improvement.

A portion of the loan proceeds may also be used to finance the Borrower’s working capital needs related to the approved QZAB allocation, such as teacher training expenditures.

Elementary Academy for a Global and Green Generation (QSCB)

Anticipated completion date is January, 2012

Needs for Project

- The areas (Pacoima, San Fernando, Sylmar) served currently enroll more than 20,000 English learners.
- All schools in the area receive “Program Improvement” status under No Child Left Behind (NCLB) due to the subgroup of English learners not meeting Adequate Yearly Progress (AYP) proficiency status including Vaughn.
- Vaughn’s 2009 API is 752 and similar school ranking is “10” (10 being highest) is over-subscribed with a waiting list of 300 (K-12)

- To assure that students are globally and digitally competent, g3 Academy will integrate international studies in the curriculum, offer instruction in critical world languages, and promote the use of smart technology for learning.

Space Allocation (11200 Herrick Avenue, Pacoima, 91331)

- Land size = 165,000 sq. ft. lot (already acquired)
- Enrollment capacity = 500
- A two-story green building: 24 classrooms, multipurpose room/children theatre, media/library, cafeteria, professional development center, 2 resource rooms, 2 language labs, garden, playground, administrative offices, health office, rehearsal room/studio.
- Parking spaces per state guidelines

Curriculum Planning

- Standards-based instruction to assure that students will be academically prepared
- Mathematical analysis, scientific processing, and logical reasoning to strengthen problem solving skills
- The study of world geography, contributions of different cultures, major global issues of our interconnected world
- Collaborative team work
- Effective use of essential computer and communication technologies
- Learning of at least one world language in addition to English

Project Progress

- Completed all environmental assessments, all CEQA procedures
- Completed acquisition of land
- Received preliminary site and plan approval from the California Department of Education
- Completed design and construction drawings
- Submitted construction drawings to Department of State Architect in February, 2010

Use of QSCB Bond Fund

- Architect fee
- Department of State Architect fee
- Construction costs

VII. Borrower Financial Data

Attached as Exhibit B is a schedule of historic and projected revenues for the Borrower as well as an enrollment history for Vaughn Next Century Learning Center.

VIII. 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, has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

IX. Staff Recommendation

Staff recommends CSFA approve Resolution Number 10-15 in an amount not to exceed \$9,000,000 for Vaughn Next Century Learning Center subject to final financing terms acceptable to CSFA.

**Exhibit A
Flow of Funds Diagram**

**California School Finance Authority
Educational Facilities Revenue Bonds
(VAUGHN NEXT CENTURY LEARNING CENTER)
SERIES 2010A QUALIFIED ZONE ACADEMY BONDS (DIRECT SUBSIDY BONDS)
SERIES 2010B QUALIFIED SCHOOL CONSTRUCTION BONDS (DIRECT SUBSIDY BONDS)**

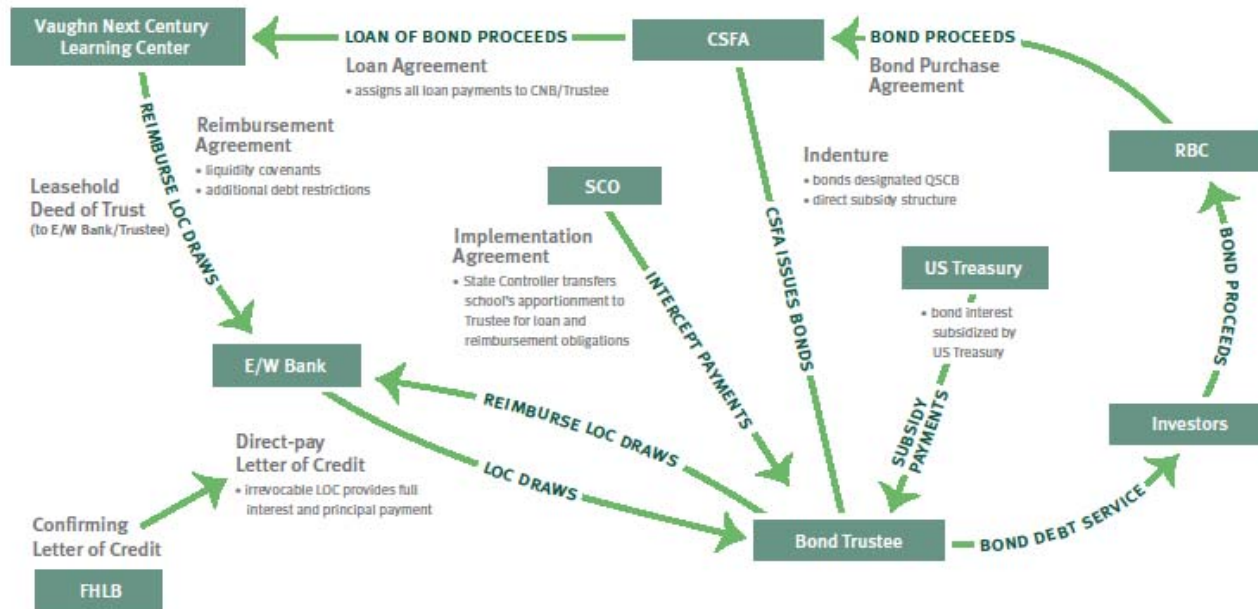


Exhibit B
Financial Information

The Borrower is in strong fiscal standing. As of April 30, 2010, equity and cash are as follows:

<u>Fund</u>	<u>Cash</u>
Cash in Los Angeles County Office of Education	\$10,119,596
Vanguard Endowment Portfolio	11,284,329
Vanguard Retiree Health Benefit Portfolio	1,870,037
East West Bank - CD	2,998,199
East West Bank - Revolving Cash, payroll, money market	791,565
East West Bank - Money Market	304,474
Cash receivables (Head Start, First 5, USDA)	620,000

Annual audit indicates balanced budget, health reserves, increase in net assets and total fund balance.

CATEGORIES	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Enrollment (PK-12)	2,322	2,481	2,530	2,735	2,795	2,800	2,800
Fund Balance (excl. fixed assets)	28,434,547	31,560,615	54,594,585	54,344,235	52,428,949	55,468,505	59,069,352
REVENUES							
General Purpose	8,530,069	9,114,169	9,294,175	10,047,260	10,267,676	10,286,044	10,286,044
Title I	1,183,177	1,264,196	1,289,164	1,393,621	1,424,195	1,426,742	1,426,742
AARA - Fed Stimulus	140,507	-	-	-	-	-	-
Title II A -Teacher Quality	116,519	118,954	118,954	118,954	118,954	118,954	118,954
Title II D - Technology	8,170	8,170	8,170	8,170	8,170	8,170	8,170
Title III – English Learners	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Title IV - Drug Prevention	12,224	12,224	12,224	12,224	12,224	12,224	12,224
Title V - Innovations	3,512	3,512	3,512	3,512	3,512	3,512	3,512
USDA Child Nutrition	1,860,000	1,987,364	2,026,615	2,190,827	2,238,889	2,242,894	2,242,894
Federal Head Start	1,300,580	-	-	-	-	-	-
Federal Charter Sch Fac. Grant	237,500	237,500	237,500				
(Federal Revenues)	4,937,189	3,706,920	3,771,139	3,802,308	3,880,943	3,887,496	3,887,496
State Economic Impact	902,228	964,008	983,048	1,062,702	1,086,015	1,087,958	1,087,958
CS Block Grant	830,380	887,241	904,764	978,075	999,531	1,001,320	1,001,320
State Lottery	250,000	267,119	272,394	294,466	300,926	301,464	301,464
State K-3 Class Size Reduction	874,450	874,450	874,450	874,450	874,450	874,450	874,450
State Preschool	706,355	1,536,355	1,536,355	1,536,355	1,536,355	1,536,355	1,536,355
State Afterschool	281,667	281,667	281,667	281,667	281,667	281,667	281,667
Special Education	1,596,740	1,706,077	1,739,773	1,880,742	1,922,002	1,925,440	1,925,440
State Child Nutrition	130,000	138,902	141,645	153,122	156,481	156,761	156,761
State Nutrition Education	105,205	110,465	115,989	121,788	127,877	134,271	140,985
(State Revenues Subtotal)	5,677,025	6,766,285	6,850,084	7,183,367	7,285,305	7,299,687	7,306,400
State Facilities Grant - 1D	-	5,400,000					
State Facilities Grant -Prop 55	-	10,000,000					
(Facilities Grants Subtotal)	-	15,400,000	-	-	-	-	-

CATEGORIES	2009-2010	2010-2011	2011-2012	2012-2013	2013-1014	2014-2015	2015-2016
Property Tax	2,526,185	2,699,167	2,752,475	2,975,502	3,040,778	3,046,218	3,046,218
Prop 10 School Readiness	462,282	439,168	417,210	-	-	-	-
LA's Best Afterschool	57,000	57,000	57,000	57,000	57,000	57,000	57,000
Interests	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Loss vs Gains	-	-	-	-	-	-	-
QZAB & QSCB Bond Sale	-	5,500,000	3,000,000	-	-	-	-
(Local Revenues subtotal)	3,795,467	9,445,335	3,976,685	3,782,502	3,847,778	3,853,218	3,853,218
(TOTAL REVENUES)	22,939,750	44,432,708	23,892,083	24,815,438	25,281,703	25,326,444	25,333,158
EXPENDITURES	2009-2010	2010-2011	2011-2012	2012-2013	2013-1014	2014-2015	2015-2016
Certificated Salaries	8,485,056	8,909,309	9,354,774	9,822,513	10,117,188	10,420,704	10,733,325
Classified Salaries	2,125,537	2,231,814	2,343,405	2,460,575	2,534,392	2,610,424	2,688,736
Benefits	2,046,717	2,149,053	2,256,505	2,369,331	2,440,411	2,513,623	2,589,032
Textbooks	172,707	200,000	220,000	250,000	270,000	280,000	280,000
Instructional Materials	336,212	350,000	360,000	360,000	360,000	360,000	360,000
Pupil Transportation	9,000	10,000	10,000	10,000	10,000	10,000	10,000
Foods and Food Supplies	760,000	775,200	790,704	806,518	822,648	839,101	855,883
Personal Contracts	960,997	970,000	970,000	970,000	970,000	970,000	970,000
Travel/Conference	88,278	90,000	90,000	90,000	90,000	90,000	90,000
Dues/Membership	16,920	17,000	17,500	18,000	18,000	18,000	18,000
Insurance	68,072	69,433	70,822	72,239	73,683	75,157	76,660
Utilities, Housekeeping	350,869	361,395	372,237	383,404	394,906	406,753	418,956
Communications, Networks	70,606	72,724	74,906	77,153	79,468	81,852	84,307
Repairs, non-cap. Improvements	182,649	188,128	193,772	199,585	205,573	211,740	218,092
Prof consulting & operating	383,580	390,000	390,000	390,000	390,000	390,000	390,000
Facilities, Acquisition, Construction	3,000,000	3,000,000	5,000,000	7,000,000	2,000,000	-	-
Media and Library	6,300	2,000	2,000	2,000	2,000	2,000	2,000
Equipment & Replacement	310,000	310,000	310,000	310,000	310,000	310,000	310,000
Fees to LAUSD	250,000	262,500	275,625	289,406	303,877	303,877	303,877
Debts Repayment (2000 QZAB)	190,182	190,182	190,182	-	-	-	-
Future QZAB,QSCB Sinking Fund		850,000	850,000	850,000	850,000	850,000	850,000
(TOTAL EXPENDITURES)	19,813,682	21,398,739	24,142,433	26,730,724	22,242,146	20,839,354	21,248,869
Gains/Losses (Rev. vs. Exp)	3,126,068	23,033,970	(250,350)	(1,915,286)	3,039,556	4,487,090	4,084,289

Exhibit B
Projected Enrollment

<u>GRADES</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>	<u>2010-2011</u> completion of high school expansion building (prop 1D)	<u>2011-2012</u>	<u>2012-1013</u> completion of elem. Expansion building (prop 55)	<u>2013-2014</u>	<u>2014-2015</u>
PK	200	200	200	200	200	200	200	220	220
K	216	237	218	228	230	230	240	240	240
1	206	198	223	224	230	230	240	240	240
2	193	199	177	220	220	230	240	240	240
3	159	178	202	180	220	220	240	240	240
4	176	160	184	200	180	220	220	240	240
5	148	181	159	181	200	180	220	240	240
6	134	136	137	149	181	150	175	175	175
7	133	127	129	138	150	150	175	175	175
8	123	128	123	127	140	150	175	175	175
9	128	128	127	144	150	160	160	160	160
10	93	113	115	127	145	150	155	155	155
11	0	77	100	113	125	135	150	150	150
12	0	0	58	91	110	125	145	145	145
(PK-12)	1,909	2,062	2,152	2,322	2,481	2,530	2,735	2,795	2,795
(K-12)	1,709	1,862	1,952	2,122	2,281	2,330	2,535	2,575	2,575

1. The Borrower is a neighborhood, non-sectarian, community-based public school with no admission criteria and no tuition charged.
2. The Borrower will not discriminate on the basis of ethnicity, national origin, religion, gender, gender preference, geographic residence, or disabilities.
3. The enrollment capacity will be: 1200 in Grades K-5, 450 in Grades 6-8, and 600 in Gr 9-12. These enrollment figures may change based on demographic changes and community needs.
4. The Borrower will adhere to all laws establishing minimum age for public school attendance.
5. There will be no school geographic boundary. All students residing in the State of California may enroll in accordance with the California Charter School Law. However, enrollment preference will be given to students who reside in our pre-charter geographic boundary. For middle and high school, preference will be given to students who have graduated from Vaughn Next Century Learning Center and those from the neighboring elementary and middle schools.