

**CALIFORNIA SCHOOL FINANCE AUTHORITY
LEASE REVENUE BONDS (OAK GROVE ELEMENTARY / WILLOWSIDE
MIDDLE SCHOOL PROJECT), SERIES 2010 (DIRECT SUBSIDY QUALIFIED
SCHOOL CONSTRUCTION BONDS) AND LEASE REVENUE BONDS (OAK
GROVE ELEMENTARY / WILLOWSIDE MIDDLE SCHOOL PROJECT), SERIES
2010 (TAXABLE)
EXECUTIVE SUMMARY**

RESOLUTION 10-40

Borrower:	Oak Grove Union Elementary School District
Loan Amount:	Not to exceed \$2,300,000
Expected Issuance:	December 16, 2010
Project:	Renovations and new construction at both Oak Grove Elementary School and Willowside Middle School located in Sebastopol and Santa Rosa.
Bond Type:	Lease Revenue Bond, Qualified School Construction Bonds (Direct Subsidy) and Lease Revenue Bonds (Taxable)(the "Bonds")
Expected Rating(s):	A-1
Structure:	Term Bond maturing in approximately nineteen years
Sale Method:	Negotiated Public Offering
Senior Manager:	Stone & Youngberg, LLC
Bond and Disclosure Counsel:	Orrick Herrington & Sutcliffe LLP

I. Background

The State has allocated to the California School Finance Authority ("CSFA") Qualified School Construction Bonds ("QSCBs") in the approximate amount of \$73 million. In July 2010, the board approved an open application period for the QSCB program. 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. Oak Grove Union Elementary School District (the "Borrower") was awarded \$2 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.

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 principal amortizing annually until a final maturity in 2029. 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. This election will take place in the event the subsidy payment is needed to pay the debt service payment on the bonds. If the Borrower does not need the subsidy payment to pay debt service on the bonds and elects to transfer other funds from its general fund, the subsidy payment will be passed on to the District's general fund.

III. Security and Source of Payment

The Bonds are secured by the Revenues, which consist of (i) rental payments (the "Base Rental Payments") to be made by the Borrower out of the General Fund of the Borrower under the Facility Sublease, (ii) all payments received by the Trustee with respect to the Intercept; and (iii) interest earnings on funds held under the Trust Agreement. Pursuant to the Facility Sublease, the Authority leases the Facilities to the Borrower. As rental for the use and occupancy of the Facilities, the Borrower covenants to pay Base Rental Payments to the Authority, which payments are pledged to the Trustee for the benefit of the Owners of the Bonds. The Base Rental Payments, which are subject to abatement, are calculated to generate sufficient Revenues to pay principal of and interest on the Bonds when due. 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). Funds received by the Trustee pursuant to the Intercept will be held in trust for the benefit of the Holders of the related Series of Bonds and will be disbursed, allocated and applied solely for the uses and purposes set forth in the related Trust Agreement, including if necessary, the payment of debt service on the related Series of Bonds. Under state law, no party, including the Borrower or any of its creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the State Controller pursuant to the Intercept.

IV. The Borrower

The Borrower is comprised of the Oak Grove Elementary and Willowside Middle School Charter schools. Oak Grove Elementary, comprising Kindergarten through Fifth Grade, is located in Sebastopol, California. This campus was built in 1954. Oak Grove Elementary/Willowside Middle School, comprising grades 6 through 8, was constructed in 1964, and is located in Santa Rosa, California.

The Oak Grove Union School Borrower is located 60 miles north of San Francisco and 15 miles inland from the Pacific Ocean in Sonoma County (the "County"), bordering the cities of Sebastopol and Santa Rosa. The Borrower operates two schools, Oak Grove School, a K-5 grade school, and Willowside Middle School, a 6-8 middle school. Oak Grove School is nestled in the hills above the town of Graton, and Willowside Middle School is located just west of Santa Rosa. The Kindergarten is a Borrower school, and grades 1-8 are operated as a dependent charter school under a single charter, despite residing at two separate locations.

The combined enrollment in the Borrower in 2009-10 as of October 1, 2009 was 785 students, of which 73 were students of the Elementary School and 712 were students of the Elementary/Middle school. The Borrower currently employs 47 certificated

employees and 50 classified employees and 3 management employees (full-time equivalents).

V. Preliminary Sources and Uses

Sources	
Qualified School Construction Bonds	\$ 2,300,000
Total Sources	\$2,300,000

Uses	
Construction Budget	\$2,150,000
Cost of Issuance (preliminary)	150,000
Total Uses	\$2,300,000

VI. The Project

The Oak Grove/Willowside Facilities are located on two sites. Oak grove elementary is located at 8760 Bowser St., Sebastopol. The facility was built in 1954 and underwent a classroom modernization program in 1989. Since that time a few projects have been undertaken to modernize the campus. Willowside is located at 5285 Hall Rd., Santa Rosa. This campus was constructed in 1964, and has undergone a recent modernization in which 60% of the campus underwent renovations.

The proceeds from the Bonds will be used to fund renovation and construction at both Oak Grove Elementary School and Willowside Middle School. At the elementary school, a modular building with two new classrooms is being placed on the site. The playground and the school entrance are both being renovated to meet ADA standards. A new computer lab is also planned, as is an additional building to support child care programs. Renovations at the elementary school include modernizing the bathrooms, energy efficiency upgrades to the classrooms, new doors and new security locks for the buildings, and several other improvements to portable classrooms and the school grounds. New construction at the middle school includes a band room, an outdoor (horticultural) nursery, a new amphitheater, and a solar energy array. Renovations at the middle school include improving school grounds, including resurfacing the basketball courts, resurfacing the entrance to the school repairing the track and soccer field, and renovating classroom equipment.

The Borrower expects to complete construction in Summer 2012.

VII. Borrower Financial Data

Attached as Exhibit B is a schedule of historic and projected revenues for Oak Grove Union Elementary School.

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 10-40 in an amount not to exceed \$2,300,000 for Oak Grove Union Elementary School Borrower subject to final financing terms acceptable to CSFA.

Exhibit B

Oak Grove Union Elementary School District Historic and Projected Revenues

	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10 ⁽¹⁾	Fiscal Year 2010-11 ⁽²⁾
REVENUES				
Revenue limit sources				
State apportionment	\$ 3,635,745	\$ 3,822,127	\$ 3,306,241	\$ 3,439,724
Local sources	<u>1,931,122</u>	<u>2,004,238</u>	<u>1,926,121</u>	<u>1,974,295</u>
Total Revenue Limit	5,566,867	5,826,365	5,255,560	5,366,671
Federal sources	147,724	430,835	210,485	130,421
Other state sources	1,072,816	1,021,311	1,213,063	1,229,771
Other local sources	492,530	455,213	337,139	341,538
Total Revenues	<u>7,279,937</u>	<u>7,733,724</u>	<u>7,016,248</u>	<u>7,086,401</u>
EXPENDITURES				
Certificated Salaries	2,636,531	2,755,017	2,730,669	2,645,485
Classified Salaries	838,004	926,018	925,973	931,187
Employee Benefits	977,235	1,065,924	1,1104,656	1,191,878
Books and Supplies	362,728	396,116	449,498	244,667
Services, Other Operating				
Expenditures	797,842	881,420	905,594	702,152
Capital Outlay	8,875	5,387	7,000	0
Other (outgo)	120,520	108,499	516,799	567,433
Debt service				
Principal	--	101,000	--	--
Interest	--	307,374	408,433	543,433
Total Expenditures	<u>5,741,735</u>	<u>6,546,755</u>	<u>6,640,190</u>	<u>6,282,802</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,538,202</u>	<u>1,186,969</u>	<u>376,058</u>	<u>785,599</u>
Other Financing Sources (Uses):				
Transfers in	--	504,000	442,099	405,758
Transfers Out	<u>(6,238,095)⁽³⁾</u>	<u>(1,558,661)</u>	<u>1,805,240</u>	<u>3,302,300</u>
Net Financing Sources (Uses)	<u>(1,238,095)</u>	<u>(1,054,661)</u>	<u>(1,363,141)</u>	<u>(896,539)</u>
NET CHANGE IN FUND BALANCES	300,137	132,308	(987,083)	(110,940)
Fund Balance – Beginning	1,094,953	1,395,060	1,527,369	540,286
Fund Balance – Ending	1,395,060	1,527,368	540,286	429,346