

**CALIFORNIA SCHOOL FINANCE AUTHORITY
REVENUE ANTICIPATION NOTES ON BEHALF OF ASPIRE PUBLIC SCHOOLS**

EXECUTIVE SUMMARY

RESOLUTION 12-06

Applicant:	Aspire Public Schools
Amount Requested:	Not to exceed \$14,000,000
Expected Issuance:	April 2012
Use of Proceeds:	The purpose of the financing is to provide Aspire Public Schools (“Aspire”) with access up to approximately \$14.0 million of working capital to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state and local funding for FY 2011-12 and 2012-13
Note Type:	Revenue Anticipation Notes, “Series 2012A and 2012B Notes”
Credit Enhancement:	None
Expected Rating(s):	Transaction will not be rated
Maturity Date:	March 1, 2013
Sale Method:	Private Placement
Note Purchaser:	LIIF (Low Income Investment Fund) and NCB Capital Impact
Note Counsel:	Orrick, Herrington, & Sutcliffe
Borrower’s Counsel:	Timothy M. Cary & Associates

I. Background

The California School Finance Authority (Authority) is a conduit debt issuer created in 1985 to provide financing for working capital and capital improvements to participating parties. A participating party may be a county office of education, school district, community college district, or charter school.

In light of the State’s projected budget deficits and deferral of substantial K-12 payments in fiscal years 2011-12 and 2012-13, a number of California charter schools are expected to incur temporary cash flow deficits.

II. Purpose

The purpose of the Charter School Working Capital financing is to provide participating borrowers (each a “Participant”) with access to financing to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state and local funding for FY 2011-12, and into FY 2012-13.

III. Structure

Each Participant will enter into a single loan agreement secured by each participant's available revenues as further described under Source of Repayment. The loans of the respective Participants will be aggregated for purposes of CSFA's sale of Notes from time to time solely to Low Income Investment Fund (LIIF) and NCB Capital Impact (NCB). In order to permit the Participants to prepay loans and borrower additional loan proceeds, from time to time during the term of the Loan Agreement, the Indenture will permit CSFA to issue additional Notes from time to time upon the agreement of the Borrower, CSFA, LIIF, and NCB. The maximum principal amount of the loan that is outstanding at any time may not exceed \$14,000,000. As the purchaser of the Notes, LIIF and NCB must be deemed a Qualified Institutional Buyer pursuant to 17 CFR 230.144A (Private resales of securities to institutions). LIIF and NCB will not be authorized to sell, transfer or otherwise dispose of the 2012A and 2012B Notes, except as provided for in the Indenture. In no case shall a Participant's loan amount exceed 85% of uncollected FY 2011-12 or 2012-13 revenues. A portion of each loan will be used to pay issuance costs at closing. Debt service due on a Participant's loan will be paid via the State Controller's Intercept Mechanism.

IV. Security and Source of Payment

The loan agreement will be secured by all available revenues of each Participant, including but not limited to, federal, state, local and extraordinary revenue sources. All Participants will be required to pledge an intercept of the state-aid portion of their General Purpose Block Grant (GPBG) in order to guarantee debt service under the terms of their respective loan agreements. The Participants will be required by CSFA to utilize the State Controller's Intercept Mechanism (Section 17199.4, Education Code) to ensure that set-aside payments toward debt service associated with the underlying loans are paid to the Trustee directly by the State no later than the maturity date specified in each respective loan agreement. CSFA expects to require acceleration of loan repayment in the event of non-operation of a Participant.

Interest will accrue on the face value of the RAN during the term of the loan, with scheduled principal pay downs and all outstanding principal & interest due at maturity. Payments are expected to be repaid by March 1, 2013, and under which no more than \$14.0 million shall be outstanding at any one time; however, Aspire may amend this schedule subject to LIIF's and NCB's approval provided that it can project full repayment prior to maturity.

V. Interest Cost and Fees

The Notes will accrue interest at the one month LIBOR rate plus 450 basis points, with a floor of 5.25% and a ceiling of 9.5%. As of March 6, 2012, the 1-month LIBOR rate 0.24%.

VI. Preliminary Sources and Uses

<u>Sources</u>	
Note proceeds	\$14,000,000
Total sources	\$14,000,000
<u>Uses*</u>	
CSFA (AG Legal and STO)	\$20,000
Orrick, Herrington & Sutcliffe (Bond Counsel)	\$15,000
Musick, Peeler & Garrett (Aspire Counsel)	\$10,000
Union Bank, N.A. (Trustee)	\$1,500
Origination Fee	\$55,000
NCB Counsel	\$10,000
McPharlin Sprinkles & Thomas (LIIF Counsel)	\$10,000
<i>Total Cost of Issuance</i>	\$121,500
Net Note Proceeds	\$13,878,500
Total uses	\$14,000,000

**Preliminary, subject to change.*

VII. The Project / Use of Funds

The purpose of the financing is to provide the Aspire schools listed in Exhibit A of this summary with access to financing to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state and local funding for FY 2011-12 and 2012-13.

VIII. The Borrower

Aspire Public Schools was founded in 1998 to manage, guide, direct, and promote charter schools that provide quality education to California youth in primary and secondary grades. Aspire is a nonprofit, public-benefit corporation with 501(c)(3) status operating charter schools in three clusters located in the San Francisco Bay Area, the Central Valley, and Los Angeles County. Aspire has a four part mission: (1) to increase the academic performance of California students; (2) to develop effective educators; (3) to start change in the public school system; and (4) to share practices with other educators. Aspire locates their charter schools in areas with academically underperforming traditional schools in order to provide an alternative learning experience. Geographic areas where at least 75% of the students qualify for free or reduced priced meals also are targeted by Aspire. In the 2011-12 school year Aspire operates 34 schools serving approximately 11,980 students. By 2014-15, Aspire plans to operate 35 schools with total projected enrollment of 13,113 students

Aspire's vision is to improve the achievement of all students in California. One of Aspire's missions is to educate students that are not being well-served in their current educational environment through their curriculum. According to information provided by Aspire representatives, Aspire implements curriculum packages created by other parties, complementary to the Aspire system and aligned to the California State standards. The school's educational program, simultaneously rigorous and relevant to the students, will emphasize interdisciplinary thinking across subject areas.

Aspire is a 501(c)(3) non-profit public benefit corporation, governed by a board of directors

that creates, controls and operates its schools. Aspire's Board of Directors is responsible for: establishing broad policies that affect all Aspire's schools, advocating Aspire's mission, and providing strategic guidance to the organization. Aspire also has an Advisory Board which supports the Board of Directors and staff by providing expertise on specific issues that affect the organization's business and education strategies. The Advisory Board includes policy makers, education researchers, community leaders, and investors.

IX. Borrower Financial Data

Staff's reviewed four years of audited financial statements (2007-08 through 2010-11), cash flow projections for 2011-12, and an adopted budget for 2011-12. Twenty-five of Aspire schools are participating in the working capital program.

X. Due Diligence Undertaken to Date

CSFA staff and counsel review responses to the questions contained in the Legal Status Questionnaire. Aspire answered "Yes" to a LSQ question(s).

In the Legal Status Questionnaire (LSQ) provided by the applicant, Aspire responded affirmatively to the two questions contained therein. The school provided information regarding the legal issues which have been summarized below for your review:

- Aspire was a "Real Party in Interest" in a matter known as California School Boards Association, et al. v. California State Board of Education. This complaint asked for a judicial interpretation of Education Code §47605.8 concerning the establishment of statewide public benefit charters. Aspire's demurrer to the complaint was sustained without leave to amend by the Court. The appellate court reversed the decision and remanded to the lower court for further findings in conformity with the appellate court's directions. Appellants' motion for summary adjudication was denied on September 2, 2011, the court trial on the petition for writ of mandamus was heard on December 16, 2011 and the matter is under submission. This matter might have a material impact because a negative determination could cause applicant's statewide public benefit charter to be revoked, and applicant would then take steps to have those schools re-chartered through the appropriate local school districts, but the outcome is unknown because there is a dearth of legal or regulatory guidance on the issue.
- Aspire is named as a defendant in a matter known as A.F. v. Children's Learning Center, et al. The complaint was filed on July 7, 2010 and contains five causes of action: negligence per se; intentional infliction of emotional distress; negligent infliction of emotional distress; negligent supervision; and violation of California Civil Code §§51, et seq. The alleged acts and omissions occurred at Children's Learning Center ("CLC") located at 2152 Central Avenue, Alameda, CA 94501 pursuant to an memorandum of understanding ("MOU") between applicant and CLC whereby the special education services would be "outsourced" to CLC. The case settled with plaintiff after the court approved the petition for minor's compromise and applicant's application for good faith determination of settlement on October 31, 2011. This matter might have a material impact in the event CLC files a subsequent cross-complaint or a subsequent action against applicant, and in this event it is unknown if tender and coverage will or will not be accepted.

- Aspire is named as a defendant in a matter known as Casillas v. Aspire Public Schools, Los Angeles County Superior Court Case No. BC 472301. The complaint was filed on October 27, 2011 and contains six causes of action: disability discrimination; failure to accommodate disability discrimination; failure to engage in the interactive process; failure to prevent discrimination; intentional infliction of emotional distress; wrongful demotion in violation of public policy; and wrongful termination in violation of public policy. Tender of the matter has been accepted by applicable insuring entities and coverage is in place, however, the complaint contains a prayer for punitive damages against applicant which might have a material impact.
- Aspire is named as a defendant in a matter known as Grassi-Smith v. Hartsock, et al. The complaint was filed on August 30, 2011 and contains four causes of action: negligent supervision; battery; negligence; and respondeat superior. Tender of the matter has been accepted by applicable insuring entities and coverage is in place, however, the complaint contains a prayer for punitive damages against applicant which might have a material impact.
- Aspire and a former senior manager of applicant were co-defendants in a matter known as Div 15 Tech v. Aspire Public Schools, et al.. This civil proceeding concerned claims for payment by an HVAC sub-contractor. The matter was settled prior to, and without requiring applicant or the former senior manager of applicant to make, a formal appearance in the matter for the sum of \$20,000. Pursuant to the express terms of the settlement agreement, plaintiff received said consideration from applicant in exchange for the dismissal of the breach of contract cause of action; and plaintiff received no money from applicant or the former senior manager of applicant in exchange for the dismissal of the fraud-based cause of action, which were expressly “voluntarily withdrawn as not applicable” by plaintiff in the settlement agreement. Further, no liability attached to or was admitted by applicant or the former senior manager of applicant by way of the resolution of any cause of action in the matter. This disclosure is made pursuant to the terms of the settlement agreement which allow for such disclosure to “governmental agencies” that have a “reasonable need” to be informed of the terms and conditions of the settlement.

Staff and counsel do not believe any of the items disclosed should prevent Aspire from being considered by the Board.

XI. Staff Recommendation

Staff recommends Authority approve Resolution Number 12-06 in an amount not to exceed \$14,000,000 for Aspire Public Schools subject to final financing terms acceptable to Authority.

EXHIBIT A

PARTICIPATING SCHOOLS

Listed below are the 25 Aspire schools (including the location and amount) that are participating in the working capital financing program.

No.	School	City	Not to Exceed Loan Amount
1	Aspire Alexander Twilight College Preparatory Academy	Sacramento	\$500,000
2	Aspire Alexander Twilight Secondary Academy	Sacramento	\$430,000
3	Aspire Antonio Maria Lugo Academy	Huntington Park	\$380,000
4	Aspire APEX Academy	Stockton	\$460,000
5	Aspire Berkley Maynard Academy	Oakland	\$730,000
6	Aspire California College Preparatory Academy	Berkeley/Oakland	\$1,000,000
7	Aspire Capitol Heights Academy	Sacramento	\$490,000
8	Aspire Centennial College Preparatory Academy	Huntington Park	\$900,000
9	Aspire East Palo Alto Charter	East Palo Alto	\$1,240,000
10	Aspire ERES Academy	Oakland	\$330,000
11	Aspire Firestone Academy	South Gate	\$600,000
12	Aspire Gateway Academy	South Gate	\$600,000
13	Aspire Huntington Park Charter	Huntington Park	\$370,000
14	Aspire Inskeep Academy Charter	Los Angeles	\$440,000
15	Aspire Juanita Tate Academy Charter	Los Angeles	\$430,000
16	Aspire Junior Collegiate Academy	Huntington Park	\$500,000
17	Aspire Millsmont Academy	Oakland	\$360,000
18	Aspire Monarch Academy	Oakland	\$540,000
19	Aspire Port City Academy	Stockton	\$500,000
20	Aspire Rosa Parks Academy	Stockton	\$670,000
21	Aspire Slauson Academy Charter	Los Angeles	\$440,000
22	Aspire Summit Charter Academy	Modesto	\$700,000
23	Aspire Titan Academy	Huntington Park	\$500,000
24	Aspire University Charter	Modesto	\$410,000
25	Aspire Vanguard College Preparatory Academy	Empire	\$480,000

\$ 14,000,000