CALIFORNIA SCHOOL FINANCE AUTHORITY
EDUCATIONAL FACILITIES REVENUE BONDS
(TRI-VALLEY LEARNING CORPORATION PROJECT), SERIES 2012A
(TAX-EXEMPT BONDS)

CALIFORNIA SCHOOL FINANCE AUTHORITY
LEASE PAYMENTS UNDER SITE LEASE BETWEEN THE CALIFORNIA SCHOOL FINANCE AUTHORITY AND MONTEVINA PHASE II, LLC (DIRECT SUBSIDY QUALIFIED SCHOOL CONSTRUCTION BONDS)

EXECUTIVE SUMMARY

RESOLUTION 12-23

Borrower:	Livermore Valley Charter School and Livermore Valley Charter Preparatory High School, each operated as Tri-Valley Learning Corporation
Total Par Amount:	Not to exceed $43,000,000
Expected Issuance:	June 2012
Uses of Proceeds:	Phase I includes the acquisition, lease, and tenant improvements of 15 buildings totaling approximately 98,400 sq. ft. on 9.88 acres and improvements to classrooms, and office space including a music room, a state-of-the-art science classroom, uniquely designed special education facilities, a library, a computer lab, a general-purpose classroom, and centralized office space for the school's administration to operate a K-12 grade Charter School. Phase II includes the acquisition of 12.4 acres for athletic fields.
Issuance Type:	Series 2012A: Tax-Exempt Bonds Subordinate Site Lease: Direct Subsidy QSCB Lease Payments
Expected Rating(s):	Series 2012A: Non-rated Subordinate Site Lease: Non-rated
Structure:	Series A Senior Bonds: Fixed-rate revenue bonds fully amortized with a 35-year final maturity. Subordinate Site Lease QSCB Certificates of Participation: Direct Subsidy Qualified School Construction Bonds in the form of lease payments with a final principal payment date not to exceed 22 years or as set by the Fed
Sale Method of Series 2012A:	Series 2012A: Limited Public Offering to Accredited Investors and Qualified Institutional Buyers
Underwriter and Placement Agent:	Westhoff, Cone & Holmstedt
Bond and Disclosure Counsel:	Orrick Herrington & Sutcliffe LLP

I. Background

In January 2012, Tri-Valley requested an allocation of $15 million in QSCB's, and was approved by the Board at the February 2012 meeting. Under the current proposal, the QSCB's will be the obligation under the Subordinate Site Lease. In addition, Tri-Valley will be selling non-rated tax-exempt bonds that will be publicly offered to only Accredited Investors and Qualified Institutional Buyers. The combined principal amounts under the Subordinate Site Lease and the Series 2012A Bonds will not exceed $43,000,000.

In the absence of Bond Issuance Guidelines adopted by CSFA, and in consideration of this transaction being unrated, staff worked with counsel, the State Treasurer's Office Public Finance Division, and the financing team to identify appropriate transfer restrictions to ensure that the interests of the issuer and bondholders are protected. CSFA staff recommends that the board approve the bond financing based on the following conditions:

a. Tri-Valley will establish a Litigation Reserve Fund in the amount of $200,000 to cover CSFA litigation expenses in connection with a default or any other legal issues that may arise.
b. Tri-Valley will issue and sell the bonds in minimum denominations of $250,000 without a traveling letter requirement. Subsequent transfer of the bonds may only be made to Qualified Institutional Buyers or Accredited Investors.
c. The original purchasers of the bonds must complete an Original Investor Letter certifying that: they are either a Qualified Institutional Buyer or Accredited Investor, are aware that any subsequent transfer of the bonds may only be made to Qualified Institutional Buyers or Accredited Investors, and will provide notice of the transfer restrictions to subsequent purchasers.
d. All transfer restrictions will be included in the Indenture, on the face of the bond, and on the cover of the offering documents.

During discussions of the transfer restrictions, CSFA staff considered requiring physical delivery of the bonds rather than allowing transfers to be recorded electronically (book entry). The financing team indicated that requiring physical delivery would significantly increase the borrowing costs to Tri-Valley, and that physical delivery is generally not attractive in the market because of the increasing use of electronic means to handle transactions.

II. Structure

<u>Series A Senior Bonds</u>:

Final Maturity:	Not to exceed 35 years
Debt Service Reserve Fund:	A Reserve Fund will be funded from Bond proceeds in the amount of Maximum Annual Debt Service (MADS).
Payment Dates:	Bond interest payments will be due each June 1 and December 1 commencing December 1, 2012. Bond interest payments will be intercepted by the State Controller on behalf of investors (See Section III below).
Principal Repayment:	The Bonds are expected to be sold as serial and term bonds ranging in maturity from June 1, 2013 through the final maturity.
Denominations:	The Bonds will be initially issued in authorized denominations of $250,000 and any integral multiples of $5,000 in excess thereof; provided, however, if the restrictions on transfers are terminated due to the bonds receiving a rating of BBB- or above, denominations will be $5,000 or any integral multiple in excess thereof.
<u>Series B QSCBs (Subordinate Site Lease)</u>:	Interest payments payable primarily from subsidy payments from the United States Department of Treasury. Principal payments will be set aside annually, beginning in 2018, from available funds after Senior Bond Debt Service and all School operating expenses, in a paying agent-held fund until the final subordinate site lease date of the QSCBs.

III. Security and Source of Payment

<u>Series A Senior Bonds Revenue Pledge</u>:	The Bonds will be secured by loan repayments and senior sublease payments (each in turn secured by a Gross Revenue pledge of the Borrower) and State Payments through a State Intercept. All funds necessary to pay interest, principal and other Bond-related expenses will be paid directly to the Bond Trustee.
<u>Subordinate Site Lease QSCBs</u>:	QSCB are payable solely from subordinate sublease payments of the Borrower (which are in turn limited to net revenues of the Borrower only after all obligations securing the Senior Bonds and operating expenses of the school are paid). QSCB's have no right of acceleration. There is no event of default if an interest payment or sinking fund payment is late or missed.
Liquidity Fund:	Pursuant to the Loan Agreement, TVLC will establish and

maintain a Liquidity Fund relating to the Senior Bonds. At the end of each fiscal year, 50% of TVLC's annual surplus until the Liquidity Fund has a maximum balance equal to Maximum Annual Debt Service on the Senior Bonds will be deposited into the Liquidity Fund and held by the Trustee.

IV. The Borrower

Tri-Valley Learning Corporation (TVLC) currently operates two charter schools in Livermore, California: Livermore Valley Charter School (LVCS), a kindergarten through eighth-grade charter school at 543 Sonoma Avenue, and Livermore Valley Charter Preparatory High School (LVCP), located at 2451 Portola Avenue. Both schools are housed in temporary facilities owned by the Livermore Valley Joint Unified School District. Each TVLC school operates under a separate charter that has been approved by the State Board of Education. The schools are currently in good standing with their authorizer and in compliance with the terms of their charters with the State Board of Education.

Enrollment currently includes 932 students in grades K through 8, and approximately 200 high school freshman and sophomores. Based on this year's P-1 attendance reports the schools' average daily attendance (of 1,093) results in a 97% ADA rate. TVLC has plans for Livermore Valley Charter Preparatory High School to grow over the next five years to reach full capacity enrollment of 1,080 students in grades nine through twelve by the 2014-15 school year.

LVCS was founded in 2004 by a collaborative group of parents and educators in response to the Livermore school district's decision to close two magnet schools due to budget cuts. Together, parents and educators endeavored to create a school that embraced proven and innovative teaching techniques to best prepare children for the 21st century.

LVCS began operation in 2005, and has the highest performing K-5 and grade 6-8 programs in the Livermore area. In 2010, LVCS had an Academic Performance Index score of 902, with a statewide rank of 9 and similar schools ranked of 7, with 10 being the highest score. Additionally, for the last six years, the school has met all Adequate Yearly Progress criteria. The school currently has a waitlist of over 680 students. The extraordinary parent and staff commitment to volunteerism and financial support for the benefit of the schools has continued and strengthened since opening day at the Livermore Valley Charter School. This same unwavering support for choice in education, led to the Livermore Valley Charter School community to begin discussing the possibility of a charter high school in May 2006. They wanted to provide students attending the Livermore Valley Charter School, with an opportunity to remain in the same educational system. The High School opened its doors in August 2010.

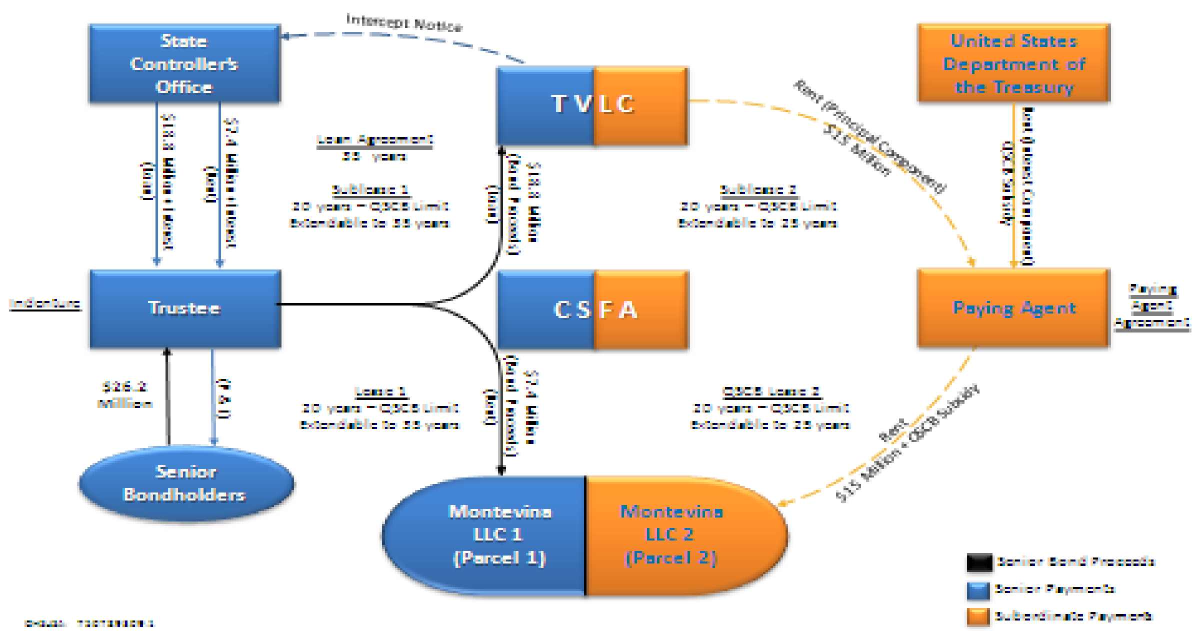
The Livermore Valley Charter Preparatory High School's philosophy of education is a natural progression from that of the Livermore Valley Charter School. The High School provides a college preparatory education in an individualized, creative, collaborative, experiential and emotionally supportive environment that challenges every student to reach his or her potential.

V. Preliminary Sources and Uses of Bonds

Sources	
Tax Exempt Bonds	$26,200,000
Total Sources	$26,200,000

Uses	
Project Budget, including Certain Property Acquisition	$16,351,415
Senior Site Lease Payment	$7,400,000
Reserve Fund	1,767,655
Transaction Cost and UW Discount	$680,930
Total Uses	$26,200,000

TVLC Project Total = $41.2 Million



VI. The Project

The project consists of the acquisition, construction, improvement and equipping of the ("Facilities") described below, which will house both LVCS and LVCP. The owners of the Facilities have agreed to enter two site leases with the Authority, who will simultaneously enter into two subleases with the Borrower. TVLC intends to lease most of the Montevina office park development located on North Canyons Parkway at its intersection with Constitution Drive in the City of Livermore ("Montevina"). The owner of the Facilities has agreed under two site leases. The real estate to be acquired includes (a) 15 of the 16 buildings totaling 98,400 square feet on 9.88 acres within Phase I ("Phase I"), and (b) a vacant 12.4-acre parcel comprising Phase II of Montevina ("Phase II"), for athletic fields. Montevina comprises one and two-story office buildings ranging in size from 3,600 to 13,200 square feet, averaging 6,560 square feet per building.

Of the 15 Phase I buildings, 14 of the buildings have never been sold by the developer or occupied and are in shell condition with no interior walls, finished ceilings, bathrooms, or floor coverings, but the electrical panels and roof-mounted HVAC units have been installed. Four of the 14 buildings are two-story with installed elevators. The 15th building is at 3252 Constitution Drive and was previously sold after the original development. The 16th building in Phase I of Montevina is at 3110 Constitution Drive.

Both Phase I and Phase II of Montevina have been approved by the City of Livermore and are fully permitted for use as schools.

VII. Borrower Financial Data

Attached as Exhibit A is a schedule of historic revenues for the Borrower as well as an enrollment history for the Tri Valley and associated affiliate schools.

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 relating to the Borrower (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 12-23. Staff reiterates the following conditions as part of its recommendation for approval of this item:

a. Tri-Valley will establish fund a Litigation Reserve Fund in the amount of $200,000 to cover CSFA litigation expenses in connection with a default or any other legal issues that may arise.
b. Tri-Valley will issue and sell the bonds in minimum denominations of $250,000 without a traveling letter requirement. Subsequent transfer of the bonds may only be made to Qualified Institutional Buyers or Accredited Investors.
c. The original purchasers of the bonds must complete an Original Investor Letter certifying that: they are either a Qualified Institutional Buyer or Accredited Investor, are aware that any subsequent transfer of the bonds may only be made to Qualified Institutional Buyers or Accredited Investors, and will provide notice of the transfer restrictions to subsequent purchasers.
d. All transfer restrictions will be included in the Indenture, on the face of the bonds, and on the cover of the offering documents.

Exhibit A
Historical Revenue and Enrollment – Tri-Valley Learning Corporation

Historical Enrollment by Grade					
Grade	2007-08	2008-09	2009-10	2010-11	2011-12
TK/K - LVCS	100	100	100	100	100
1st - LVCS	100	100	100	100	100
2nd - LVCS	100	100	100	100	100
3rd - LVCS	80	100	100	100	100
4th - LVCS	80	80	100	100	100
5th - LVCS	81	82	82	108	108
6th - LVCS	108	108	108	108	108
7th - LVCS	108	108	108	108	108
8th - LVCS	101	102	97	108	108
9th - LVCP	0	0	0	79	106
10th - LVCP	0	0	0	0	92
11th - LVCP	0	0	0	0	0
12th - LVCP	0	0	0	0	0
Total	858	880	895	1011	1130

Livermore Valley Charter School
Historical Financials

Fiscal Year Ending June 30	2006 Audited	2007 Audited	2008 Audited	2009 Audited	2010 Audited	2011 Audited
Average Daily Attendance	**560**	**715**	**828**	**854**	**860**	**899**
REVENUES						
Donated Property and Services	$ 5,000	$ 52,645	$ 3,600	$ -	$ -	
Federal Revenue	$ 182,815	$ 116,428	$ 57,798	$ -	$ 55,420	$ 16,265
State Aid Portion of General Purpose Block Grant	$ 1,286,725	$ 1,969,632	$ 2,346,410	$ 2,007,445	$ 1,769,577	$ 1,936,656
Categorical Block Grant	$ 165,853	$ 292,800	$ 385,731	$ 317,097	$ 401,119	$ 414,083
All Other State Revenue	$ 417,980	$ 579,359	$ 539,986	$ 966,120	$ 1,192,940	$ 981,299
Cash In-Lieu of Property Taxes	$ 1,524,757	$ 1,887,101	$ 2,364,226	$ 2,507,711	$ 2,339,533	$ 2,413,601
Interest Income	$ 9,156	$ 19,123	$ 17,527	$ 16,973	$ 5,268	$ 8,753
All Other Local Revenue	$ 244,869	$ 835,267	$ 344,610	$ 347,122	$ 880,431	$ 1,580,999
Net Assets Released from Restrictions		$ (170,898)	$ 74,842	$ 10,939	$ (199,883)	$ -
Total Revenues	**$ 3,837,155**	**$ 5,581,457**	**$ 6,134,730**	**$ 6,173,407**	**$ 6,444,405**	**$ 7,342,903**
EXPENSES						
Personnel - Dedicated	$ 2,628,218	$ 3,258,094	$ 3,063,229	$ 3,216,246	$ 3,164,343	$ 3,095,207
Personnel - Discretionary	$ 292,024	$ 362,010	$ 340,359	$ 357,360	$ 351,594	$ 355,767
Books & Supplies - Dedicated	$ 144,589	$ 219,785	$ 222,925	$ 230,910	$ 319,019	$ 248,269
Books & Supplies - Discretionary	$ 52,578	$ 109,892	$ 111,462	$ 115,455	$ 159,510	$ 114,576
Services & Other Operating Expenses	$ 230,028	$ 677,670	$ 687,351	$ 711,973	$ 983,643	$ 896,876
Capital Outlay & Other Expenses	$ 295,751	$ 824,193	$ 835,968	$ 865,913	$ 1,196,322	$ 1,558,478
Total Expenses	**$ 3,643,188**	**$ 5,451,645**	**$ 5,261,294**	**$ 5,497,856**	**$ 6,174,431**	**$ 6,269,173**
CHANGES IN TEMPORARILY RESTRICED NET ASSETS						
Private Grants and Contributions	$ -	$ -	$ -	$ -	$ -	$ -
State Revenue	$ -	$ -	$ -	$ -	$ -	$ -
Net Assets Released from Restrictions	$ -	$ 170,898	$ (74,842)	$ (10,939)	$ 199,883	$ -
Increase in Temporarily Restriced Net Assets	$ -	$ 170,898	$ (74,842)	$ (10,939)	$ 199,883	$ -
Increase (Decrease) in Net Assets	**$ 193,967**	**$ 300,710**	**$ 798,594**	**$ 664,612**	**$ 469,857**	**$ 1,072,271**
NET ASSETS						
Net Assets - Beginning of the Year	$ -	$ 193,967	$ 494,677	$ 1,293,271	$ 1,957,883	$ 2,328,456
Net Assets - End of the Year	$ 193,967	$ 494,677	$ 1,293,271	$ 1,957,883	$ 2,427,740	$ 3,669,498

Livermore Valley Charter Preparatory High School

Historical Financials

Fiscal Year Ending June 30		2010 Audited		2011 Audited
Average Daily Attendance		**-**		**71**
REVENUES				
Donated Property and Services	$	-	$	-
Federal Revenue	$	48,822	$	343,346
State Aid Portion of General Purpose Block Grant	$	-	$	248,511
Categorical Block Grant	$	-	$	-
All Other State Revenue	$	-	$	44,753
Cash In-Lieu of Property Taxes	$	-	$	191,931
Interest Income	$	268	$	-
All Other Local Revenue	$	16,735	$	81,745
Net Assets Released from Restrictions	$	-	$	-
Total Revenues	**$**	**65,825**	**$**	**910,286**
EXPENSES				
Personnel - Dedicated	$	-	$	-
Personnel - Discretionary	$	-	$	-
Books & Supplies - Dedicated	$	-	$	-
Books & Supplies - Discretionary	$	-	$	-
Services & Other Operating Expenses	$	-	$	-
Capital Outlay & Other Expenses	$	-	$	911,745
Total Expenses	**$**	**-**	**$**	**911,745**
CHANGES IN TEMPORARILY RESTRICED NET ASSETS				
Private Grants and Contributions	$	-	$	-
State Revenue	$	-	$	-
Net Assets Released from Restrictions	$	199,883	$	-
Increase in Temporarily Restriced Net Assets	$	199,883	$	-
Increase (Decrease) in Net Assets	**$**	**199,853**	**$**	**-**
NET ASSETS				
Net Assets - Beginning of the Year	$	-	$	199,853
Net Assets - End of the Year	$	199,853	$	198,394