

\$15,000,000
CALIFORNIA SCHOOL FINANCE AUTHORITY
SCHOOL FACILITY REVENUE BONDS
(VALUE SCHOOLS)
SERIES 2013
EXECUTIVE SUMMARY

RESOLUTION 13-11

Borrower: VSF School Facilities #1 LLC, the sole member of which is Value School Facilities, Inc., a California Public Benefit and 501c3 not-for profit-corporation.

Project User: Value Schools, a California nonprofit public benefit corporation, doing business as Central City Value School and Downtown Value School, each a charter school. Value Schools Inc. will lease the facilities from VSF School Facilities #1 LLC

Loan Amount: Not to exceed \$15,000,000 (Tax-Exempt and Taxable Bonds)

Expected Issuance: June 2013

Project: The bond proceeds will be used to (i) refinance the mortgage on the building that currently houses Downtown Value School, located at 950 W. Washington Boulevard (also identified as 1912 and 1930 S. Toberman Street), Los Angeles, (ii) purchase the property where Central City Value School is located, 221 N. Westmoreland Avenue, Los Angeles, (iii) retire debt incurred during previous renovations on both properties, (iv) renovate both facilities, (v) cover the costs of issuance, and (vi) fund a reserve fund.

Bond Type: School Facility Revenue Bonds (Taxable and Tax Exempt Series) (the "Bonds")

Project Locations: Central City Value School: 221 N. Westmoreland Avenue, Los Angeles
Downtown Value School: 950 W. Washington Boulevard (also identified as 1912 and 1930 S. Toberman Street), Los Angeles

County: Los Angeles

District in which Project is Located: Los Angeles Unified School District

Charter Authorizer: Los Angeles Unified School District

Est. Annual Payment: \$710,000

Expected Rating:	BBB-
Structure:	Term Bond maturing in 2023 (Tax-Exempt), 2033, (Tax-Exempt), 2043 (Tax-Exempt), and 2048 (Tax-Exempt)
Sale Method:	Publicly Offered
Underwriter:	RBC Capital Markets, LLC
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP

I. Background

VSF School Facilities #1 LLC is requesting conduit bond financing, not to exceed \$15 million, for purposes of (i) refinancing the mortgage on the building that currently houses Downtown Value School, located at 950 W. Washington Boulevard (also identified as 1912 and 1930 S. Toberman Street), Los Angeles, (ii) purchasing the property where Central City Value School is located, 221 N. Westmoreland Avenue, Los Angeles, (iii) retiring debt incurred for previous renovations on both properties, (iv) renovating both facilities, (v) covering the costs of issuance, and (vi) funding a reserve funds for the two schools.

II. The Project User and the Borrower

The borrower is VSF School Facilities #1 LLC, a California limited liability company, whose sole member is expected to be Value Schools Foundation, a California nonprofit public benefit corporation. The borrower owns the two charter school facilities, each of which will be leased to Value Schools.

The Sole Member's purposes include providing charter school facilities and operations and other support to charter schools, and to provide or assist in obtaining charter school financing, and related activities. While Value Schools operates the two charter schools, Value Schools is not a party to the bond and has no liability or direct responsibility with respect thereto.

Value Schools was formed in July 2000 by Dr. Jerome Porath to establish and support high quality elementary and secondary charter schools for students who have historically been underserved by the public school system. After running a fee based summer program and a small free kindergarten, Value Schools opened the Downtown Value School in September 2002 serving 24 students in kindergarten and first grade and has grown to its full capacity of 445 students in the Downtown facility. The Central City Value School opened in September 2003 with 90 students and has grown to 399 students with a goal of growing to its 480-student capacity.

III. Financial Structure

The Authority will issue fixed rate tax-exempt and taxable bonds, if needed. The final maturity of the bonds will be 30-35 years. The bond issue may include both serial and term bonds. The purpose of the taxable bonds, if needed, is to finance expenditures which do not qualify for tax-exempt status.

It is anticipated that the bonds will be rated investment grade (BBB- category) by Standard & Poor's. Regardless of whether the bonds achieve an investment grade rating, sales restrictions will apply that are consistent with the bond issuance guidelines approved by the Authority board on November 27, 2012.

The Bonds will be dated on the date of delivery, expected in June 2013, and currently are expected to mature on July 1 of 2023, 2033, and 2048, respectively with mandatory sinking fund payments prior to maturity. The Bonds are expected to bear interest payable semi-annually on July 1 and January 1 of each year, commencing January 1, 2014, until maturity or earlier redemption. Bond transfers will conform to CSFA investor restrictions policies, based on the final rating of the bonds.

The CSFA board approved an allocation of up to \$1,000,000 for Value Schools under the Charter School Facilities Credit Enhancement Program at its November 2012 meeting. This credit enhancement award will be used to fund a debt service reserve for this financing.

IV. Security and Source of Payment

The Bonds are limited obligations of the Authority primarily payable from moneys received by the bond trustee through the Intercept and other moneys received directly from, or on behalf of the Borrower pursuant to the Loan Agreement. Payment obligations of the Borrower are primarily limited to amounts received as rental payments under the leases of the charter school facilities. The leases also provide for additional rent to cover other charges related to this financing, including administrative fees and deposits into a Repair and Replacement Fund. The obligations to pay rent under the leases is a special obligation limited solely to the gross revenues of the charter schools, Central City Value and Downtown Value.

The Central City Value Campus and the Downtown Value Campus will be subject to deeds of trust as security for the Bonds.

V. Preliminary Sources and Uses

SOURCES AND USES OF FUNDS	
California School Finance Authority Education Facilities Revenue Bonds, Series 2012 (Value Schools)	
***** Preliminary	
Dated Date	12/04/2012
Delivery Date	12/04/2012
Sources:	
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Bond Proceeds:	
Par Amount	11,255,000.00
Other Sources of Funds:	
Federal Credit Enhancement Grant	728,126.26
	11,983,126.26
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Uses:	
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Project Fund Deposits:	
Refinance Downtown School Mortgage	1,000,000.00
Central City Acquisition (VS Portion)	6,990,291.00
Central City Acquisition (Seller Portion)	1,009,709.00
Private Loan Payoff	821,000.00
Upgrades to Central City Property	400,000.00
	10,221,000.00
Other Fund Deposits:	
Debt Service Reserve Fund *	728,126.26
Capitalized Interest Fund **	332,546.21
Repair & Replacement Reserve Fund	200,000.00
	1,260,672.47
Delivery Date Expenses:	
Cost of Issuance	300,000.00
Underwriter's Discount	196,962.50
	496,962.50
Other Uses of Funds:	
Additional Proceeds	4,491.29
	11,983,126.26

Notes:
 Scale assumes a 'BBB-' credit rating
 * Assumes 2% investment rate on DSRF
 ** Assumes CAPI is gross funded through 7/1/2013

VI. Project Description

The bond proceeds will be used to (i) refinance the mortgage on the building that currently houses Downtown Value School, located at 950 W. Washington Boulevard (also identified as 1912 and 1930 S. Toberman Street), Los Angeles, (ii) purchase the property where Central City Value School is located, 221 N. Westmoreland Avenue, Los Angeles, (iii) retire debt incurred during previous renovations on both properties, (iv) renovate both facilities, (v) cover the costs of issuance, and (vi) fund a reserve fund.

VII. Borrower Financial Data

Attached as Exhibit A is a schedule of historic revenues for the Schools as well as their enrollment history.

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 the board members adopt Resolution Number 13-11 authorizing issuance of bonds in an amount not to exceed \$15,000,000 for Value Schools and its affiliate, VSF School Facilities #1 LLC, subject to final financing terms acceptable to CSFA.

**Value Schools
Historic and Projected Operating Results**

Revenue	Actual	Actual	Actual	Actual	Actual	Unaudited	Budget	Budget	Budget	Budget	Budget
	2006-07	2007-08	2008-09	2009-10	2010-11	Actual 2011-12	2012-13	2013-14	2014-2015	2015-16	2016-17
Federal, state and local support	\$ 6,245,725	\$ 6,230,433	\$ 6,031,969	\$ 6,479,071	\$ 7,230,522	\$ 7,341,402	\$ 7,630,056	\$ 8,149,426	\$ 8,057,003	\$ 8,330,709	\$ 8,623,063
						Federal					
						State	\$ 672,641	\$ 770,771	\$ 701,026	\$ 575,515	\$ 541,722
						Local	\$ 6,099,390	\$ 6,314,063	\$ 6,824,217	\$ 6,929,537	\$ 7,213,407
							\$ 569,451	\$ 537,222	\$ 544,182	\$ 552,751	\$ 575,660
Grants and donations	\$ 127,202	\$ 515,061	\$ 350,730	\$ 516,931	\$ 860,812	\$ 127,652	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	\$ 53,896	\$ 46,501	\$ 22,221	\$ 13,421	\$ 12,180	\$ 60,707	\$ 35,000	\$ 500	\$ 500	\$ 500	\$ 500
Program income	\$ 218,025	\$ 279,750	\$ 364,381	\$ 417,757	\$ 611,869	\$ 593,365	\$ 569,899	\$ 585,621	\$ 597,333	\$ 609,280	\$ 621,465
Other income	\$ 2,409	\$ 374	\$ 847	\$ -	\$ 111,982	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenue	\$ 6,647,257	\$ 7,072,119	\$ 7,570,148	\$ 7,427,900	\$ 8,027,373	\$ 8,123,206	\$ 8,234,955	\$ 8,735,546	\$ 8,655,636	\$ 8,940,569	\$ 9,245,029
Expenses											
Salaries—Certificated	\$ 2,340,836	\$ 2,347,949	\$ 2,893,570	\$ 3,074,195	\$ 3,130,204	\$ 3,367,525	\$ 3,493,020	\$ 3,536,241	\$ 3,605,826	\$ 3,694,546	\$ 3,792,991
Salaries—Classified	\$ 547,779	\$ 647,833	\$ 689,074	\$ 700,038	\$ 663,651	\$ 717,711	\$ 888,064	\$ 905,825	\$ 923,942	\$ 947,040	\$ 970,716
Benefits	\$ 646,465	\$ 601,190	\$ 815,650	\$ 840,095	\$ 917,900	\$ 944,173	\$ 1,004,195	\$ 1,113,844	\$ 1,140,182	\$ 1,187,416	\$ 1,220,579
Books and supplies	\$ 304,347	\$ 414,070	\$ 344,197	\$ 301,164	\$ 282,604	\$ 390,542	\$ 289,559	\$ 295,350	\$ 301,262	\$ 307,292	\$ 313,444
Rent	\$ 522,106	\$ 596,000	\$ 640,000	\$ 660,000	\$ 661,078	\$ 672,495	\$ 398,525	\$ -	\$ -	\$ -	\$ -
Services and other operating	\$ 707,595	\$ 1,045,374	\$ 924,290	\$ 1,198,126	\$ 1,494,741	\$ 1,529,038	\$ 1,532,429	\$ 1,562,873	\$ 1,594,348	\$ 1,626,465	\$ 1,659,237
Bond Payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 716,136	\$ 714,926	\$ 713,486	\$ 716,816
Mortgage Interest	\$ 40,153	\$ 201,569	\$ 146,170	\$ 130,112	\$ 74,486	\$ 92,116	\$ 40,185	\$ -	\$ -	\$ -	\$ -
Interest	\$ 205,908	\$ 39,932	\$ 59,851	\$ 450	\$ 75,820	\$ 37,922	\$ -	\$ -	\$ -	\$ -	\$ -
Depreciation	\$ 162,747	\$ 112,395	\$ 120,933	\$ 120,933	\$ 140,141	\$ 136,875	\$ 44,750	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
Professional service	\$ 72,879	\$ 100,146	\$ 31,909	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District oversight fees	\$ 43,710	\$ 45,687	\$ 47,518	\$ 217,500	\$ 233,482	\$ 217,639	\$ 220,637	\$ 231,934	\$ 235,854	\$ 246,717	\$ 256,649
Total expenses	\$ 5,594,525	\$ 6,832,153	\$ 6,713,162	\$ 7,242,613	\$ 7,674,115	\$ 8,106,035	\$ 7,999,364	\$ 8,363,702	\$ 8,525,839	\$ 8,724,462	\$ 8,939,931
Adjustments											
Change in net assets	\$ 1,052,732	\$ 239,966	\$ 856,986	\$ 185,367	\$ 1,153,258	\$ 17,171	\$ 235,590	\$ 371,844	\$ 129,797	\$ 216,106	\$ 305,897
Rent	\$ 522,106	\$ 596,000	\$ 640,000	\$ 660,000	\$ 661,078	\$ 672,495	\$ 390,525	\$ -	\$ -	\$ -	\$ -
Mortgage interest/debt service	\$ 40,153	\$ 201,569	\$ 146,170	\$ 130,112	\$ 74,486	\$ 92,116	\$ 40,185	\$ 716,136	\$ 714,926	\$ 713,486	\$ 716,816
Depreciation	\$ 162,747	\$ 112,395	\$ 120,933	\$ 120,933	\$ 140,141	\$ 136,875	\$ 44,750	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
Available for debt service payments	\$ 1,777,738	\$ 1,149,930	\$ 1,764,089	\$ 1,096,412	\$ 2,028,963	\$ 918,657	\$ 719,050	\$ 1,089,480	\$ 846,223	\$ 931,092	\$ 1,024,213
Rental payments/debt service payments	\$ 562,259	\$ 797,569	\$ 786,170	\$ 790,112	\$ 735,564	\$ 764,611	\$ 430,710	\$ 716,136	\$ 714,926	\$ 713,486	\$ 716,816
Debt service coverage	3.162	1.442	2.244	1.388	2.750	1.201	1.639	1.521	1.184	1.305	1.429

**Exhibit A
Historical Revenue and Enrollment – Downtown Value Schools**

The Downtown Value School – Historical and Projected Enrollment by Grade

Year/Grade	Downtown Value School									
	K	1	2	3	4	5	6	7	8	
2006-07	40	34	37	40	45	48	50	50	50	394
2007-08	39	39	40	38	49	43	57	53	54	412
2008-09	38	42	39	41	42	48	60	59	51	420
2009-10	40	40	42	42	49	49	61	61	61	445
2010-11	42	42	42	44	50	50	58	57	61	446
2011-12	42	43	42	43	48	50	59	59	61	447
2012-13	42	42	42	42	49	49	60	60	60	446
2013-14	42	42	42	42	49	49	60	60	60	446
2014-15	42	42	42	42	49	49	60	60	60	446
2015-16	42	42	42	42	49	49	60	60	60	446
2016-17	42	42	42	42	49	49	60	60	60	446

2011-2012 Student Recruitment and Waiting Lists

Grade	K	1	2	3	4	5	6	7	8
Number on Waiting List	43	30	23	15	8	10	36	15	10

Downtown Value School Student Retention

YEAR/GRADE	Percentage of Students Returning from Previous Year							
	1	2	3	4	5	6	7	8
2007-08	100%	100%	95%	92%	100%	79%	91%	94%
2008-09	100%	95%	90%	95%	100%	94%	93%	83%
2009-10	100%	100%	100%	95%	93%	96%	88%	93%
2010-11	90%	98%	95%	93%	98%	90%	95%	90%
2011-12	95%	100%	95%	98%	100%	100%	95%	88%
Average	97%	99%	95%	95%	98%	92%	92%	90%
1-5 Average	97%							
6-8 Average	91%							

The Central City Value School – Historical and Projected Enrollment by Grade

Year/Grade	Central City Value High School				Total
	9	10	11	12	
2006-07	65	76	47	43	231
2007-08	88	71	85	74	318
2008-09	86	97	65	78	326
2009-10	101	89	100	65	355
2010-11	113	104	81	80	378
2011-12	111	111	104	73	399
2012-13	130	110	106	100	446
2013-14	130	125	105	102	462
2014-15	125	125	120	101	471
2015-16	125	120	120	116	481
2016-17	130	120	115	116	481

Central City Value School Student Retention

Percentage of Students Returning from Previous Year			
YEAR/GRADE	10	11	12
2007-08	72.8%	86.4%	90.5%
2008-09	67.9%	87.9%	87.7%
2009-10	92.9%	81.4%	68.9%
2010-11	72.9%	78.3%	85.9%
2011-12	64.5%	80.2%	86.1%
Average	74%	83%	84%