

\$10,000,000
California School Finance Authority
School Facility Revenue Bonds
(Alliance College-Ready Academy High School No. 20 Project) Series 2014A
(Qualified Zone Academy Bonds – Tax Credits) and Series 2014B (Tax-Exempt)

EXECUTIVE SUMMARY
RESOLUTION 14-03

Borrower/Owner:	461 W. 9 th Street Charter Facilities LLC (“Borrower”)
Sole Member of Borrower:	Alliance for College-Ready Public Schools Facilities Corporation
Project Users:	Alliance College-Ready High School #20 (the “Charter School”)
Issuance Amount:	Not to exceed \$10,000,000 (\$5,000,000 in tax-exempt bonds, and \$5,000,000 in taxable bonds)
Expected Issuance:	March 24, 2014
Project:	The bond proceeds will be used by the Borrower to finance the acquisition and renovation of educational facilities for the benefit of the Charter School
Bond Type:	School Facility Revenue Bonds (the “Bonds”)
Project Location:	461 W. 9 th Street, Los Angeles, 90731
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Est. Annual Payment:	Approximately \$660,000
Expected Rating:	Nonrated
Structure:	Term Bonds expected to have a final maturity of 2039
Sale Method:	Private Placement
Placement Agent:	Robert W. Baird
Financial Advisor:	Buck Financial
Transaction Consultant:	GVS Capital
Bond Counsel:	Orrick, Herrington and Sutcliffe LLP
Trustee:	Zions Bank
Purchaser of the Senior Bonds:	Alliance for College-Ready Public Schools
Lenders of Purchase Price of the Senior Bonds:	Non Profit Finance Fund (NFF) Genesis LA The East Los Angeles Community Union (TELACU) Los Angeles County Development Commission (LACDC)
Purchaser of Subordinate Debt	SKS Ventures, LLC

Background and Project

The proceeds of the Bonds will be used to (1) finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of the land and facilities located at 461 West 9th Street, Los Angeles, CA 90731, to be known as Alliance College-Ready High School No. 20 (the "Project"), (2) pay certain expenses incurred in connection with the issuance of the Bonds, and (3) pay capitalized interest on the Bonds. The Project will be owned by the Borrower and operated as public charter school by Alliance College-Ready Academy High School No. 20. After completion of the Project, the Project is expected to accommodate approximately 600 students in grades 9 through 12.

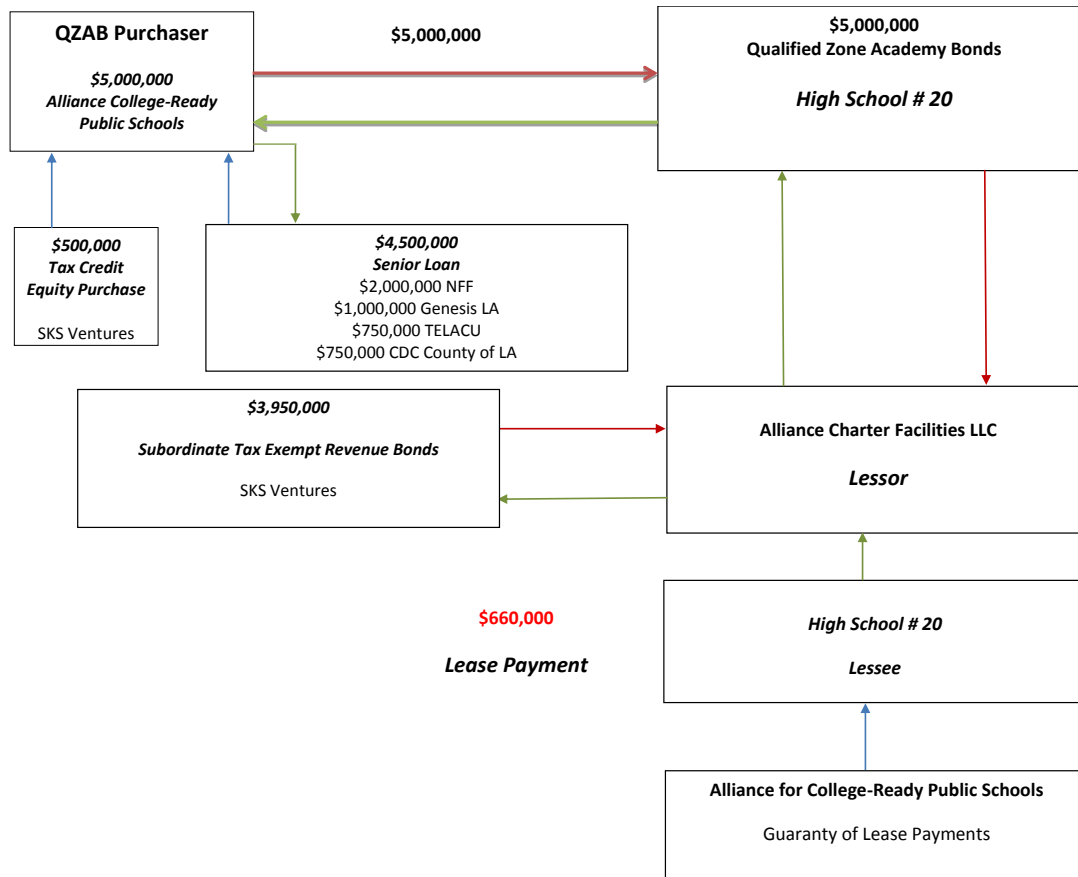
I. The Borrower and the Lessee

The proceeds of the Bonds will be loaned to 461 W. 9th Street Charter Facilities LLC, a California limited liability company (the "Borrower") whose sole member is Alliance College-Ready Public Schools Facilities Corporation, a California nonprofit public benefit corporation (the "Sole Member"), pursuant to a Loan Agreement, dated as of March 1, 2014 (the "Loan Agreement"), between the Authority and the Borrower. The proceeds of such loan will be used, along with other available funds, to: (i) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of a public charter high school facility located at 461 W. 9th Street, in the City of Los Angeles, California (the "461 9th Street Union") to be leased by the School, to operate a charter school which receives certain support services from Alliance College-Ready Public Schools, a California non-profit public benefit corporation ("Alliance"); and (ii) pay costs of issuance of the Bonds and (iv) pay capitalized interest on the Bonds.

The project owners will be the Borrower, all of which are affiliated with Alliance. Alliance is a California nonprofit public benefit corporation formed in 1999 and currently acts as a charter school management organization. Alliance oversees 21 middle and high schools (including the School) in the Los Angeles Unified School District with over 9,439 students. Alliance provides support services to the School pursuant to a Management Services Agreement. None of Alliance, the Sole Member, the other Project Owners or the other Project Users is a party to the Loan Agreement, the Lease or any other document securing the Bonds, and those parties have no liability and undertake no obligations with respect thereto. Alliance has agreed to subordinate payment of its management fee to the obligations of the School under the Lease.

II. Financial Structure / Flow of Funds

The Senior Lenders include the Nonprofit Finance Fund (\$2.0 million), Genesis LA (\$1 million), TELACU (\$750,000), CDC of County Los Angeles (\$750,000), and will loan \$4.5 million to Alliance for College-Ready Public Schools (the "Senior Purchaser") to purchase the senior bonds. This loan structure is necessary because of grant restrictions regarding senior lenders purchasing and holding bonds. The senior bonds will have an interest rate set at 6.375% for 5.5 years. The Borrower also will execute a subordinate loan with SKS Ventures for tax-exempt subordinate lease purchase certificates in the amount of \$4.0 million with an interest rate 8.75% for 5 years (through lock-out period), and 9.5% thereafter and amortized over 20 years thereafter. The tax credits relating to the senior bonds, issued as Qualified Zone Academy Bonds (the "QZAB") will be stripped and sold by the senior purchaser to the Stripped Tax Credit Equity Purchaser, SKS Ventures, in the amount of \$500,000.



III. Security and Sources of Payment

The QZABs will be secured by a first Deed of Trust, First Pledge of Project Revenues, Intercept, Sinking Fund and Alliance Guaranty. Subordinate Loan will be secured by a second DOT, Second Pledge of Project Revenues, Intercept, and Alliance Guaranty.

The Lenders, through a loan agreement with the senior purchaser, will receive quarterly interest-only payments during the term of the bond derived from (i) the Lease Payments from the school which will be set at \$660,000 annually and will serve as cash flow to the Trustee on behalf of the QZAB purchasers and the Subordinate Loan purchasers.

The Lease Payments will be set at \$660,000 annually based on an estimated enrollment at full capacity of 600 students and a targeted facilities cost of \$1,100 per student. The Borrower will be required to maintain a minimum Debt Service Coverage Ratio of 1.0x during the term of the QZAB purchase. The School will be required to maintain a minimum DSCR of 1.20x related to the Borrower's debt service during the term of the QZAB purchase. Attached at Exhibit A is a schedule of the Alliance's 10-year budget projections and estimated coverage on the bonds.

A minimum of \$600,000 will be contributed to the Project by Alliance as a direct loan from Alliance to the School priced at 1.00% annually. This loan will have the same term as the QZABs and will be subordinate to the QZAB and to the Subordinate Loan obligations.

Alliance will provide: 1) a lease payment guaranty; 2) a construction completion guaranty; and 3) a full bond repayment guaranty during the term of the QZAB and the Subordinate

Loan. The structure of the guaranty will cover the annual debt service on the QZABs and on the Subordinate Loan. The school will file an intercept notice with the state controller for the term of the QZAB bonds and Subordinate Loan providing that the Trustee will receive the intercepted State Revenue Funds payable to the School to pay debt service. Required debt service payments on the QZAB and Subordinate Loan will be swept monthly prior to Operating Revenues being released to the School. The Alliance debt of \$600,000 and the Alliance Management Fee will be subordinate to Lender's debt represented by the QZAB and Subordinate Bond purchases and Lender repayment (debt service and under lease payment). The Borrower will covenant to preserve the status of the senior bonds as QZABs.

Alliance will be responsible for all costs associated with facilitating the loan (including underwriting, legal, documentation, third party reports and servicing fees).

IV. Preliminary Sources and Uses

QZAB Bonds	4,825,000
Sources:	
Senior Loans	4,500,000
TC Equity	477,336
	<u>4,977,336</u>
Alliance 10% Equity	482,500
	<u>5,459,836</u>
Uses:	
QZAB Costs	4,999,834
QZAB COI	100,000
QZAB Cap I	205,063
	<u>5,304,896</u>
Acquisition Reimbursement	150,000
Miscellaneous	4,940
	<u>5,459,836</u>
Sources:	
Subordinate Debt	3,975,000
Alliance contribution	717,500
	<u>4,692,500</u>
Uses:	
Acquisition*	3,189,050
Cap I	954,938
COI	450,000
Developer Fee	75,000
Miscellaneous	23,512
	<u>4,692,500</u>

Below we have provided a breakdown of the estimated cost of issuance on the transaction. Please note that the total COI is for the Senior bonds in the amount of \$4,500,000, the Subordinate bonds in the amount of \$3,975,000 as well as for the \$477,320 raised from tax credit equity. The total amount for which the COI was calculated is thus \$8,952,320.

**Estimated
Costs of Issuance**

Sources:	
QZAB COI	\$ 100,000
Subordinate COI	<u>\$ 450,000</u>
	\$ 550,000
Uses:	
Origination Fees	\$ 84,000
Finance Team	\$ 223,808
Title	\$ 15,000
Butler Snow	\$ 65,000
Musick Peeler	\$ 40,000
Orick	\$ 25,000
Hastings	\$ 40,000
CSFA	\$ 20,000
Nixon	\$ 20,000
Madrid and Associates	\$ 5,000
Zions	\$ 10,000
CSFA First Year	\$ 1,500
Misc	<u>\$ 692</u>
	\$ 550,000

V. Borrower Financial Data

The Borrower is a limited liability company, the sole member of which is Alliance for College-Ready Public Schools Facilities Corporation (the "Sole Member"). The Sole Member is a California nonprofit public benefit corporation formed as a support organization for charter schools formed and controlled by Alliance. The Sole Member has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code. The Borrower is a single purpose entity with no assets other than the Facility and its rights under the Lease, which have been assigned to the Trustee. The Borrower was formed for the purpose of owning the Facility and is not expected to have any other assets or revenue available to it to make payments due under the Loan Agreement.

VI. Due Diligence Undertaken to Date

No information was disclosed that questions the financial viability or legal integrity of the Borrower. Standard opinions of counsel 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.

VII. Bond Sales Restrictions

Per Bond Issuance Guidelines adopted by the CSFA board, the following sales restrictions may apply to Alliance High School No. 20 Project financing: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>. Given that the transaction is non-rated, the following sales restrictions are in place for this financing. Orrick has selected the highlighted sales restriction in item #7.

1. Bonds will be in minimum denominations of \$100,000; and
2. Bonds will be privately placed or publicly offered initially to QIBs and AIs; and
3. Bonds purchases will be required to execute an initial Investor Letter; and
4. Subsequent transfers of bonds will be limited to QIBs and AIs; and
5. Sales restrictions conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents
6. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code; and
7. One or more of the following will be required depending on the transaction, as requested by the financing team and approved by the Authority:
 - a. Traveling Investor Letter; or
 - b. Higher minimum denominations of \$250,000; or
 - c. Physical Delivery; or
 - d. Limited initial sale to QIBs, with subsequent transfers limited to QIBs as well; or
 - e. Other investor protection measures.

VIII. Staff Recommendation

Staff recommends CSFA approve Resolution Number 14-03 in an amount not to exceed \$10,000,000 for 461 W. 9th Street Charter Facilities LLC.

Exhibit A
10-Year Budget Projections
(Alliance College-Ready Public Schools)

Below are projections for 10 Alliance College-ready Academy High School

Alliance College-Ready Academy High School #20										
High School BLAST Model										
5 year Cash Flow Projection/Budget										
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Total Revenue	<u>2,117,371</u>	<u>3,332,147</u>	<u>4,639,713</u>	<u>6,211,201</u>	<u>6,306,422</u>	<u>6,403,559</u>	<u>6,502,650</u>	<u>6,603,736</u>	<u>6,706,856</u>	<u>6,812,051</u>
Total Expenses	<u>1,711,358</u>	<u>3,143,901</u>	<u>4,268,681</u>	<u>5,439,651</u>	<u>5,544,277</u>	<u>5,651,565</u>	<u>5,761,586</u>	<u>5,860,951</u>	<u>5,976,654</u>	<u>6,095,311</u>
Total Surplus (Deficit)	<u>\$ 406,013</u>	<u>\$ 188,247</u>	<u>\$ 371,032</u>	<u>\$ 771,550</u>	<u>\$ 762,145</u>	<u>\$ 751,993</u>	<u>\$ 741,064</u>	<u>\$ 742,785</u>	<u>\$ 730,202</u>	<u>\$ 716,741</u>
Total Change in Cash	439,763	256,422	475,340	359,131	212,023	710,498	703,313	708,871	700,222	690,793
Cash, Beginning of Year	-	439,763	696,185	1,171,525	1,530,656	1,742,679	2,453,177	3,156,490	3,865,361	4,565,584
Cash, End of Year	<u>\$ 439,763</u>	<u>\$ 696,185</u>	<u>\$ 1,171,525</u>	<u>\$ 1,530,656</u>	<u>\$ 1,742,679</u>	<u>\$ 2,453,177</u>	<u>\$ 3,156,490</u>	<u>\$ 3,865,361</u>	<u>\$ 4,565,584</u>	<u>\$ 5,256,377</u>
COVERAGE ON PROPOSED FACILITY PAYMENTS										
Net Revenues Available for Debt Service	719,229	751,497	1,190,812	1,866,334	1,863,594	1,860,242	1,856,250	1,851,587	1,846,223	1,840,125
Debt Service	660,000	660,000	660,000	660,000	660,000	660,000	660,000	646,541	646,541	646,541
Less: Capitalized Interest	(495,000)	(330,000)	(165,000)							
Net Debt Service	165,000	330,000	495,000	660,000	660,000	660,000	660,000	646,541	646,541	646,541
Coverage to Make Debt Service Payments	4.36	2.28	2.41	2.83	2.82	2.82	2.81	2.86	2.86	2.85
Excess Net Revenues	554,229	421,497	695,812	1,206,334	1,203,594	1,200,242	1,196,250	1,205,046	1,199,682	1,193,584
Management Fee	148,216	233,250	324,780	434,784	441,450	448,249	455,186	462,262	469,480	476,844
Remaining Surplus	406,013	188,247	371,032	771,550	762,145	751,993	741,064	742,785	730,202	716,741
Estimated Debt Burden	7.79%	9.90%	10.67%	10.63%	10.47%	10.31%	10.15%	9.79%	9.64%	9.49%