

**CALIFORNIA SCHOOL FINANCE AUTHORITY
REVENUE ANTICIPATION NOTES (ROCKETSHIP EDUCATION),
SERIES 2014A AND SERIES 2014B**

EXECUTIVE SUMMARY

RESOLUTION 14-04

| | |
|-----------------------------------|---|
| Applicant: | Rocketship Education |
| Amount Requested: | Not to exceed \$4,605,000 outstanding from time to time |
| Expected Initial Issuance: | April 11, 2014 |
| Use of Proceeds: | The purpose of the financing is to provide the charter schools (listed on Exhibit A) and operated as Rocketship Education (Rocketship) with access up to approximately \$4,605,000 of working capital to relieve cash flow deficits caused by the State of California payment deferral schedule |
| Note Type: | Revenue Anticipation Notes, "Series 2014A and 2014B Notes" |
| Credit Enhancement: | None |
| Expected Rating(s): | Transaction will not be rated |
| Maturity Date: | October 31, 2014 with a termination of the draw period of June 20, 2014 |
| Sale Method: | Private Placement |
| Note Purchaser: | Low Income Investment Fund (LIIF) (Series A: \$2,287,500) and Capital Impact Partners (Capital Impact) (Series B: \$2,287,500) |
| Note Counsel: | Orrick, Herrington, & Sutcliffe LLP |
| Issuer's Counsel: | Office of the Attorney General |
| Borrower's Counsel: | Rocketship Education's General Counsel |

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 deferral of K-12 payments in the current 2013-14 fiscal year, a number of California charter schools are expected to incur temporary cash flow deficits.

II. Purpose

The purpose of the financing is to provide participating borrowers with access to financing to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state funding for FY 2013-14.

III. Structure

Rocketship will enter into a single loan agreement on behalf of each charter school (each a Participant) listed on Exhibit A, secured by each Participant's available revenues as further described under Source of Repayment. The loans to the respective Participants will be aggregated for purposes of CSFA's sale of Notes from time to time to Low Income Investment Fund (LIIF) and Capital Impact Partners (Capital Impact). Additional notes under the Master Note could be issued to a subsequent Purchaser. In order to permit the Participants to both prepay and borrow additional proceeds from time to time during the term of the Loan Agreement, the Indenture permits CSFA to issue additional Notes upon the agreement of the Borrower, CSFA, LIIF, and Capital Impact or a subsequent purchaser. The maximum principal amount of the loan that is outstanding at any time may not exceed \$4,605,000. As the purchaser of the Notes, LIIF and Capital Impact must be deemed a Qualified Institutional Buyer pursuant to 17 CFR 230.144A. LIIF and Capital Impact will not be authorized to sell, transfer or otherwise dispose of the 2014A and 2014B Notes, except as provided for in the Indenture. In no case shall a Participant's loan amount exceed 85% of uncollected FY 2013-14 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

All Participants will be required to submit to the Controller an intercept notice with scheduled transfers equal to debt service under the terms of their respective loans. The Participants will be required by CSFA to utilize the State Controller's Intercept Mechanism (Section 17199.4, Education Code) to ensure that aggregate transfers will cover Note debt service payments and are paid to the Trustee directly by the State in time to pay Note debt service. In the event a Participant ceases to Operate, the Trustee, as assignee of the Authority's rights under the Loan Agreement, may accelerate the loan repayments of such Participant.

Interest will accrue on the face value of the RAN, with scheduled principal pay downs, and all outstanding principal and interest due at maturity. Payments are expected to be repaid by July 2014, and no more than \$4,605,000 shall be outstanding at any one time.

V. Interest Cost and Fees

Rate for the Series 2014 Notes in any Variable Rate Calculation Period shall be calculated as a rate equal to the 30-day LIBOR in effect on the closing date, plus 4.50%. The Variable Rate and the interest rate payable on the Notes shall never be less than 4.75%. As of April 3, 2014, the 1-month LIBOR rate was 0.1525%.

Below is an estimated Cost of Issuance for the transaction based on a total issuance of \$4,575,000 for both the 2014A and 2014B RAN Series.

VI. Preliminary Sources and Uses

| | <u>Sources</u> | |
|---------------------------|----------------|---------------------------|
| Par Amount of Notes | | <u>\$4,575,000</u> |
| Total Sources | | <u>\$4,575,000</u> |
| | <u>Uses</u> | |
| Working Capital | | \$4,500,979 |
| <u>Financing Costs</u> | | |
| CSFA Issuer Fee | | \$3,431 |
| AG Fees | | 2,000 |
| PFD Agent for Sale Fee | | 4,000 |
| Bond Counsel | | 15,000 |
| Combined Origination Fee | | 12,500 |
| Trustee | | 2,090 |
| Combined Lenders' Counsel | | 20,000 |
| Borrower's Counsel | | <u>15,000</u> |
| Total Financing Costs | | <u>\$74,021</u> |
| Total Uses | | <u>\$4,575,000</u> |

VII. The Project / Use of Funds

The purpose of the financing is to provide the charter schools listed in Exhibit A of this summary with working capital to relieve anticipated temporary monthly cash flow deficits in advance of the receipt of certain state funding for FY 2013-14.

VIII. The Borrower

Rocketship Education is operated as a California non-profit public benefit corporation and is organized and operated exclusively for charitable purposes within the meaning of Section 501(c)(3).

In 1999, officials from Santa Clara University asked Father Mateo Sheedy, Pastor of Sacred Heart Parish in San Jose, to recommend children from his parish for the Juan Diego Scholarship program. Father Mateo conducted an exhaustive search to find candidates who could attend and succeed at this four-year college, but he was unable to find a single qualified student. He was appalled that, of the hundreds of children in his parish, none had received the education necessary to attend Santa Clara University. Father Mateo immediately began researching ways to solve this problem. He soon became convinced that the public schools around his parish were failing to educate the students in his church. He decided that the children of the parish needed to have an alternative to their neighborhood district school.

Father Mateo's vision brought a full K-12 alternative path to downtown San Jose through the following schools: Rocketship Mateo Sheedy Elementary School (K-5), Sacred Heart Nativity School (6-8), and Downtown College Preparatory (9-12). In its first year of operation, Rocketship Education's first school, Rocketship Mateo Sheedy Elementary School became the highest ranked low-income elementary school in Santa Clara County and the seventh ranked school in California. This caused an enormous demand from parents in other parts of

Santa Clara County for Rocketship Education to open additional schools. Based on the success of Rocketship Mateo Sheedy Elementary School, the founders decided to expand Rocketship Education to serve other schools in the most troubled neighborhoods in San Jose. Rocketship Education believes that it has taken the successful model pioneered at Rocketship Mateo Sheedy Elementary School and translated it into the critical systems necessary for successful replication. Rocketship Education will provide each Rocketship school with systems and support for Curriculum, Finance, Legal, Learning Lab, and Human Resources.

By capturing the best practices from Rocketship Mateo Sheedy Elementary School, Rocketship Education believes that each Rocketship school can avoid many of the startup hurdles faced by most charter schools and quickly produce strong academic results and a solid school culture by focusing on the key levers which drive student achievement. Rocketship Education believes that its model is fundamentally different from other elementary schools in five important ways: an extended school day, high expectations, teacher teaming, deep community involvement, and individualization for each student.

Rocketship Education is designed to serve students who are or may be at risk of achieving below basic proficiency on state exams. Rocketship Education intends to attract children of parents who are seeking an alternative to their current educational system, who desire an innovative educational approach, and who share the vision of Rocketship Education. Rocketship Education anticipates that it will enroll primarily students from schools which are undergoing program improvement ("PI") in conjunction with the Federal No Child Left Behind regulations.

IX. Borrower Financial Data

Staff reviewed four years of audited financial statements (2010-11 through 2012-13), cash flow projections for 2013-14, and an adopted budget for 2014-15. Seven of Rocketship Education's schools are participating in the working capital program.

X. Due Diligence Undertaken to Date

Staff reviewed the applicant's responses to the questions contained in the Legal Status Questionnaire (LSQ) portion of the application. Rocketship answered "None" to all questions contained in the LSQ.

XI. Staff Recommendation

Staff recommends the Authority approve Resolution Number 14-04 in an amount not to exceed \$4,605,000 outstanding from time to time for Rocketship.

EXHIBIT A

PARTICIPATING SCHOOLS

Listed below are the seven Rocketship Education schools (including the location and amount) that are participating in the working capital financing.

| No. | School | County | Non-Profit Corporation | Not to Exceed Loan Amount* |
|------------|--------------------------------|---------------|-------------------------------|-----------------------------------|
| 1. | Rocketship Si Se Puede Academy | Santa Clara | Rocketship Education | \$520,000 |
| 2. | Rocketship Los Suenos Academy | Santa Clara | Rocketship Education | \$730,000 |
| 3. | Rocketship Mosaic Elementary | Santa Clara | Rocketship Education | \$500,000 |
| 4. | Rocketship Discovery Prep | Santa Clara | Rocketship Education | \$720,000 |
| 5. | Rocketship Brilliant Minds | Santa Clara | Rocketship Education | \$840,000 |
| 6. | Rocketship Alma Academy | Santa Clara | Rocketship Education | \$640,000 |
| 7. | Rocketship Spark Academy | Santa Clara | Rocketship Education | \$625,000 |
| | | | | \$4,575,000 |