

\$29,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
SCHOOL FACILITY REVENUE BONDS
(ROCKETSHIP EDUCATION - MULTIPLE PROJECTS)
SERIES 2015A (TAX-EXEMPT) AND 2015B (TAXABLE)
EXECUTIVE SUMMARY
RESOLUTION 15-02

| | |
|---|--|
| Borrower | Launchpad Development Company, a CA nonprofit public benefit corporation |
| Owner of Facilities: | Launchpad Development One LLC and Launchpad Development Fifteen LLC, each of whose sole members is Launchpad Development Company |
| Project User: | Rocketship Education (Rocketship Redwood City and Rocketship Mateo Sheedy Schools) |
| Loan Amount: | Not to exceed \$29,000,000 |
| Expected Issuance: | March 2015 |
| Project: | To finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of the land and facilities |
| Bond Type: | School Facility Revenue Bonds (Tax-Exempt and Taxable Bonds) |
| Project Location: | 860 Charter Street, Redwood City, California and 788 Locust Street, San Jose, California |
| County: | San Mateo County and Santa Clara County, respectively |
| Districts in which Project is Located: | Redwood City School District/Sequoia Union High School District and San Jose Unified School District, respectively |
| Charter Authorizer: | Redwood City School District and Santa Clara County Office of Education, respectively |
| Est. Annual Payment: | \$1,620,756 |
| Anticipated Rating: | No rating |
| Sale Method: | Limited Public Offering |
| Underwriter: | Stifel Nicolaus & Co., Inc. |
| Bond Counsel: | Orrick Herrington & Sutcliffe |

I. Use of Bond Proceeds

The purpose of the proposed financing is to finance and/or refinance the costs of acquisition, construction, renovation, improvement and equipping of public charter school facilities located in San Jose, and Redwood City, California, owned by Launchpad Development One LLC, and Launchpad Development Fifteen (each an "Owner") and leased to Rocketship Education, a California nonprofit public benefit corporation, for use and occupancy by the Schools.

Launchpad One received facilities construction loans from Raza Development Fund in 2008 that mature in March 2015 in the original principal amounts of \$5,000,000 and \$700,000 (collectively, the "Raza Development Loan"), with effective interest rates of 5.00% and 5.25%, respectively for the construction and equipping of the Mateo Sheedy facility. The Raza Development Loan is expected to be refinanced by a portion of the bond proceeds. In addition, a portion of the bond proceeds will be used for the renovation, improvement and equipping of the Mateo Sheedy facility. A portion of the bond proceeds also will be used to reimburse Launchpad Development Fifteen for the costs of financing new construction of a school building and parking/land acquisition costs incurred for the Redwood City facility.

II. **The Project User and the Borrower**

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.

The Project User: Rocketship Mateo Sheedy received its original charter (CDS Code: 43 10439 0113704) in 2007 from the Santa Clara County Office of Education ("SCCOE") to operate a Grade K-5 school. In 2010, the SCCOE approved the school's charter renewal petition. The current charter will expire on June 30, 2015. Rocketship intends to submit a charter renewal petition for Mateo Sheedy in Spring 2015. Rocketship Redwood City received its original charter on June 25, 2014 from the Redwood City School District to operate a Grade K-5 school. The current charter will expire on June 30, 2019.

III. Financial Structure

The Bonds will be issued in two series: (1) Series A (tax-exempt) will be approximately \$25,065,000, and (2) Series B (taxable) will be approximately \$560,000. The Bonds will have a final maturity of June 1, 2049. The Bonds will be interest only through June 1, 2017 (the first principal payment will be June 1, 2017). Interest will be capitalized through June 1, 2016.

The Bonds will be issued pursuant to an Indenture, by and between the Authority and Wells Fargo Bank, National Association, Los Angeles, California, as trustee. The Bonds will bear interest on June 1 and December 1 of each year, commencing June 1, 2015 and will be subject to optional, mandatory and extraordinary redemption prior to maturity. The proceeds of the Bonds will be loaned to Launchpad Development Company, a California nonprofit public benefit corporation (the "Borrower"), pursuant to a Loan Agreement.

The facilities financed with proceeds of the Bonds will be leased to Rocketship Education, a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 pursuant to certain leases by and between Rocketship Education and certain California limited liability companies, the sole member of each of which is the Borrower.

IV. Security and Source of Payment

Rocketship Education will pay rent under each lease solely from revenues derived from or attributable to the charter schools operated in the financed facilities. The Bonds will be payable solely from Loan Repayments made by the Borrower solely from the rents payable by the schools under the leases. In addition, the Borrower, and certain other limited liability companies the sole member of which is the Borrower, are party to a master trust indenture pursuant to which the Borrower may from time to time guarantee debt obligations of the Borrower secured by the joint and several obligations of the parties to the master trust indenture (the "Obligated Group"). Launchpad Development One LLC and Launchpad Development Fifteen LLC will become parties to the master trust indenture in order for the Borrower's payment obligations with respect to the Bonds to be guaranteed by the Obligated Group. A shortfall in payment of Base Rent when due from any charter school that occupies a facility owned by a member of the Obligated Group will result in additional Rent payments becoming due from the remaining charter schools.

Payment of management fees to the Borrower and to Rocketship Education from the revenues of such charter schools will be subordinated to the obligation to pay Base Rent under the leases.

V. Preliminary Sources and Uses/Cost of Issuance

Below are the preliminary sources and uses, and detailed information about the costs of issuance for board consideration.

Estimated Sources & Uses

| Sources: | Series 2015 A (RMS) | Series 2015 A (RWC) | Series 2015 B (Taxable) | Total |
|--|---------------------|----------------------|-------------------------|----------------------|
| Bond Proceeds: | | | | |
| Par Amount | 6,900,000.00 | 18,165,000.00 | 560,000.00 | 25,625,000.00 |
| | 6,900,000.00 | 18,165,000.00 | 560,000.00 | 25,625,000.00 |
| Uses: | Series 2015 A (RMS) | Series 2015 A (RWC) | Series 2015 B (Taxable) | Total |
| Project Fund Deposits: | | | | |
| RMS Facility Improvements Fund | 250,000.00 | | | 250,000.00 |
| RMS Raza Loan Takeout Fund | 5,700,000.00 | | | 5,700,000.00 |
| RWC Construction Fund | | 15,600,000.00 | | 15,600,000.00 |
| | 5,950,000.00 | 15,600,000.00 | | 21,550,000.00 |
| Capitalized Interest Fund | 258,175.00 | 736,313.23 | 26,191.67 | 1,020,679.90 |
| Debt Service Reserve Fund | 557,513.97 | 1,467,716.11 | 45,247.51 | 2,070,477.59 |
| | 815,688.97 | 2,204,029.34 | 71,439.18 | 3,091,157.49 |
| Delivery Date Expenses: Cost of Issuance | 133,000.00 | 358,299.99 | 487,793.76 | 979,093.75 |
| Additional Proceeds | 1,311.03 | 2,670.67 | 767.06 | 4,748.76 |
| | 134,311.03 | 360,970.66 | 488,560.82 | 983,842.51 |
| | 6,900,000.00 | 18,165,000.00 | 560,000.00 | 25,625,000.00 |

Estimated Costs of Issuance

| Underwriter's Discount: | \$/Bond | Actual Dollar Amount |
|--|---------------------|--------------------------------|
| Management Fee | \$11.888 | \$304,620.69 |
| Average Takedown | \$10.000 | \$256,250.00 |
| Underwriter's Expenses: | | |
| Underwriter's Counsel Fee | \$0.000 | \$0.000 |
| Miscellaneous Expenses: | | |
| CDIAC | \$0.234 | \$6,000.00 |
| DAL/COMP | \$0.047 | \$1,206.19 |
| DTC | \$0.031 | \$800.00 |
| Day Loan | \$0.025 | \$640.63 |
| CUSIP | \$0.021 | \$545.00 |
| Miscellaneous | \$0.254 | \$6,500.00 |
| Other (specify): | | |
| Clearance fees & expenses | \$0.00 | \$0.00 |
| Total Underwriter's Discount | \$22.50 | \$576,562.500 |
| Maturities | Par Amount | Takedown by Maturity (\$/Bond) |
| Term Bond - 2026 (Tax Exempt) | \$6,900,000.00 | \$10.00 |
| Term Bond - 2049 (Tax Exempt) | \$18,165,000.00 | \$10.00 |
| Term Bond - 2019 (Taxable Tail) | \$560,000.00 | \$10.00 |
| Cost of Issuance: | Budgeted Amount | |
| Issuer Fee | \$43,781.25 | |
| Issuer's Counsel (AGO) | \$30,000.00 | |
| STO Agent for Sale Fee | \$6,000.00 | |
| Financial Advisor Fee | \$0.00 | |
| Bond Counsel Fee - Tax-Exempt Bonds | \$125,000.00 | |
| Underwriter's Counsel (and Disclosure Counsel) | \$80,000.00 | |
| Borrower's Counsel | \$75,000.00 | |
| Trustee Fee | \$8,750.00 | |
| Trustee Counsel Fee | \$5,000.00 | |
| Ratings Agency - Moody's | \$0.00 | |
| Rating Agency - Fitch * | \$0.00 | |
| Rating Agency - S&P | \$0.00 | |
| Financial Printer Fee | \$5,000.00 | |
| Title Insurance Policy | \$25,000.00 | |
| Construction Inspection Fee | \$0.00 | |
| Appraisal Fee | \$0.00 | |
| CDLAC Fee* | \$0.00 | |
| Miscellaneous COI (Administrative Fees) | \$5,000.00 | |
| Total COI | \$408,531.25 | |

* if applicable

VI. Borrower Financial Data

Attached at Exhibit A is a schedule of Rocketship Bay Area 5-year budget and enrollment. Exhibit B includes school performance data.

VII. 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, is a 501(c)(3) organization, has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

VIII. Bond Sales Restrictions

Per Bond Issuance Guidelines adopted by the CSFA board, and given no bond rating, the following sales restrictions may apply to the *currently non-rated* Rocketship financing: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Bonds will be in minimum denominations of \$100,000
2. Bonds will be privately placed or publicly offered initially to QIB's and AI's
3. Bonds purchases will be required to execute an initial Investor Letter
4. Subsequent transfers of bonds will be limited to QIBs and AIs Sales restrictions conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents
5. 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 QIB's, with subsequent transfers limited to QIB's as well; or
 - e. Other investor protection measures
6. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code

IX. Staff Recommendation

Staff recommends CSFA approve Resolution Number 15-02 in an amount not to exceed \$29,000,000.

Exhibit A 5-Year Budget Projections

| (\$ in Thousands) | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|--|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Consolidated Regional Summary Bay Area REGION | | | | | | |
| Stats | | | | | | |
| New Schools | 1 | 1 | 2 | 2 | 2 | 2 |
| Total Schools | 9 | 10 | 12 | 14 | 16 | 18 |
| Enrollment | 5,217 | 5,767 | 6,898 | 8,072 | 9,270 | 10,500 |
| Schools | | | | | | |
| Recurring Revenue | 48,956 | 56,151 | 67,791 | 78,895 | 90,766 | 103,134 |
| Grants & Fundraising | 700 | 731 | 1,162 | 1,162 | 1,162 | 862 |
| Expenses | 48,659 | 54,839 | 67,410 | 79,381 | 91,640 | 103,148 |
| Inc in Net Assets | 997 | 2,043 | 1,543 | 676 | 288 | 848 |
| Cash | 7,491 | 11,381 | 14,017 | 16,409 | 18,395 | 21,026 |
| RSO | | | | | | |
| Grants & Fundraising | - | - | - | - | - | - |
| Expenses | 2,227 | 2,585 | 3,015 | 3,121 | 3,230 | 3,340 |
| Inc in Net Assets | 3 | (18) | 87 | 487 | 922 | 1,380 |
| Cash | (935) | (935) | (826) | (334) | 594 | 1,979 |
| ISE | | | | | | |
| Recurring Revenue | 3,150 | 3,485 | 4,114 | 4,832 | 5,566 | 6,319 |
| Grants & Fundraising | - | - | - | - | - | - |
| Expenses | 3,268 | 3,549 | 4,245 | 4,967 | 5,704 | 6,461 |
| Inc in Net Assets | (117) | (63) | (130) | (135) | (138) | (142) |
| Cash | (140) | (269) | (514) | (783) | (1,059) | (1,342) |
| Combined | | | | | | |
| Inc in Net Assets | 883 | 1,962 | 1,500 | 1,028 | 1,072 | 2,086 |
| Total Cash | \$6,416 | \$10,178 | \$12,677 | \$15,291 | \$17,930 | \$21,663 |
| <i>Cash as % of Total Expenses</i> | 11.8% | 16.7% | 17.0% | 17.5% | 17.8% | 19.2% |

Exhibit B Student Performance Data

API Scores

| School | FY 2011 | FY 2012 | FY 2013 | FY 2014* |
|--|---------|---------|---------|----------|
| Rocketship Mateo Sheedy | 892 | 924 | 851 | 893** |
| Alum Rock Union Elementary School District | 770 | 785 | 785 | |
| San Jose Unified School District | 798 | 805 | 798 | |
| CA State Average | 779 | 788 | 789 | |

*In 2013, the State Board of Education (SBE) approved the discontinuation of calculating API scores.

**Rocketship has estimated its API scores through internal testing using State-approved materials.

Enrollment (Average Daily Attendance)

| School | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|----------------|----------------|----------------|----------------|----------------|---------|---------|---------|---------|
| RMS (% ADA) | 464 (97.2%) | 512 (96.9%) | 591 (98.2%) | 619 (97.2%) | 626 | 632* | 632* | 632* |
| RWC | | | | | | 498* | 548* | 576* |

*Projected.

Student Retention Data

| School | FY 2011 | FY 2012 | FY 2013 |
|-------------------------|---------|---------|---------|
| Rocketship Mateo Sheedy | 88% | 95% | 91% |