

\$50,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(DOWNTOWN COLLEGE PREPARATORY)
SERIES 2016A (TAX-EXEMPT) & SERIES 2016B (TAXABLE)

EXECUTIVE SUMMARY
RESOLUTION 16-02

Borrower:	DCP Foundation (the “Borrower”)
Project User:	Downtown College Prep operating, 1) DCP High School; 2) DCP Middle School; 3) DCP Alum Rock Middle School; and 4) DCP Middle School Two
Loan Amount:	Not to exceed \$50,000,000
Expected Issuance:	April 2016
Project:	The proceeds of the bonds, which may be issued in multiple series, will be used to finance and refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of educational facilities located in Santa Clara County
Bond Type:	Charter School Revenue Bonds, Series 2016A (Tax-Exempt) and Series 2016B (Taxable)
Project Location:	See “Project Information” section
Counties Served:	Santa Clara County
District in which Project is Located:	San Jose Unified School District (2 schools), Alum Rock Union Elementary School District (2 schools)
Charter Authorizer:	San Jose Unified School District, Alum Rock Union Elementary School District
Est. Annual Payment:	\$3,465,000
Anticipated Rating:	BB- or BB
Structure:	\$46,390,000 (Tax-Exempt, Fixed Rate Bonds), \$1,075,000 (Taxable, Fixed Rate Bonds) interest only through 6/1/20; first principal on 6/1/21
Sale Method:	Public Offering
Underwriter:	Stifel, Nicolaus, & Company, Incorporated
Bond Counsel:	Orrick, Herrington, & Sutcliffe LLP
Trustee:	Wilmington Trust, N.A.

I. Use of Bond Proceeds / Project Information

Proceeds of the Bonds will be used to make a loan to the Corporation to finance and/or refinance the costs (as defined in the Act) of acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of the land and/or educational facilities (as defined in the Act) known or to be known as (1) Downtown College Prep – Alum Rock Middle School (“DCP – Alum Rock Middle School”), a school located at 2888 Ocala Avenue, San Jose, California, owned by DCP Facilities 1, LLC (“DCP1”) and designed to serve approximately 470 students in grades 6 through 8; (2) Downtown College Prep – El Primero High School (“DCP – El Primero High School”) and Downtown College Prep – El Camino Middle School (“DCP – El Camino Middle School”), to be located at 1402 Monterey Highway, to be owned by DCP Facilities 2, LLC (“DCP2”), and designed to serve approximately 1,000 students in grades 5 through 12; and (3) Downtown College Prep – Middle School Two (“DCP – Middle School Two”), a school to be located at 950 St. Elizabeth Drive, San Jose, California, to be owned by DCP Facilities 3, LLC (“DCP3”) and designed to serve approximately 520 student in grades 5 through 8 (collectively, the “Project”). The sole member of each of DCP1, DCP2 and DCP3 is the Corporation. DCP – Alum Rock Middle School, DCP – El Primero High School, DCP – El Camino Middle School and DCP – Middle School Two (the “Obligated Group Schools”) will be operated as public charter schools by Across the Bridge Foundation (“ABF”), dba Downtown College Prep, a nonprofit public benefit corporation and operator of public charter schools.

Expected Project Breakdown

Site	Landlord	Location	Purpose	Amount
Downtown College Prep – El Primero High School	DCP Facilities 2, LLC	1402 Monterey Highway, San Jose, California	New Construction	\$ 10,786,174
Downtown College Prep – El Camino Middle School	DCP Facilities 2, LLC	1402 Monterey Highway, San Jose, California	New Construction	\$ 10,786,174
Downtown College Prep – Alum Rock Middle School	DCP Facilities 1, LLC	2888 Ocala Avenue, San Jose, California	New Construction & Refinancing an Outstanding Loan	\$ 8,223,549
Downtown College Prep – Middle School Two	DCP Facilities 3, LLC	at 950 St. Elizabeth Drive, San Jose, California,	Acquisition & Tenant Improvements	\$ 13,700,000
Total Estimated Project Costs				\$ 43,495,897

II. Across the Bridge Foundation, dba Downtown College Preparatory

Across the Bridge Foundation (“ABF” dba Downtown College Preparatory) is a California nonprofit public benefit corporation formed in February 1999, and headquartered in San Jose, California. ABF has received a determination letter from the Internal Revenue Service recognizing it as an organization described in Section 501(c)(3) of the Code. ABF currently operates 4 schools (DCP – Alum Rock High School, DCP – Alum Rock Middle School, DCP – El Primero High School and DCP – El Camino Middle School), and will operate its fifth school DCP – Middle School Two commencing with the 2016-17 school year. ABF will lease the Facilities as lessee under the Lease (as defined below), for use and occupancy by the Obligated Group Schools; however, ABF is not a party to the Loan Agreement or the Master Indenture or the Supplemental Master Indenture, and ABF does not have any liability thereunder in respect to repayment of the Loan, Obligation No. 1 or the Bonds.

The vision of ABF is to break the cycle of failure for underachieving students by placing them on a college-prep track. At the core of ABF’s model is the fundamental belief that the opportunity to attend a high-quality, mission-driven, college-prep school is the most important factor in a student’s eventual college success. ABF operates its schools on multiple campuses, all located in San Jose, California. ABF opened its first campus, DCP El Primero High School, in September 2000 serving grades 9-12, DCP – El Primero High School operates under a charter approved by

the San Jose Unified School District. In 2007, ABF approved a plan to expand from the operation of one school and campus to a Charter Management Organization with a network of schools in San Jose, and to expand from serving grades 9-12 to serving grades 6-12. DCP – Alum Rock was originally founded in 2011 serving grades 6-12 and was later divided into two separate schools (DCP Alum Rock High School and DCP Alum Rock Middle School) in 2015. For the 2014-15 school year, ABF opened DCP El Camino Middle School as an additional middle school in San Jose, California serving grades 6-8 operating under a charter approved by the San Jose Unified School District. ABF's charter schools, taken together, are projected to serve approximately 1900 students in the greater San Jose, California, area fiscal year 2016-17.

III. Financial Structure

The Bonds are expected to be issued in two series: \$46,390,000 for Series 2016A (Tax-Exempt) and \$1,075,000 for Series 2016B (Taxable). The Bonds will have a final maturity of June 1, 2050. The Bonds are expected to be interest-only through June 1, 2020 (with the first principal payment on June 1, 2021). The Bonds may be issued in one or more series and sold on one or more sale dates in respect of all or any portion of the Project, depending on the Project's readiness; however, the aggregate amount issued shall not exceed the \$50,000,000 authorization.

IV. Security and Source of Payment

The Bonds and the interest thereon are payable solely out of certain revenues and income received by the Authority or the Trustee pursuant to the Loan Agreement, and Obligation No. 1 issued by the Borrower in an amount equal to the aggregate principal amount of the Bonds pursuant to the Master Indenture, as supplemented by Obligation No. 1. As discussed above, the Bonds may be issued in one or more series sold on one or more sale dates; Any future series will be secured by subsequent Obligations (e.g. Obligation No.2).

As additional security for the Bonds, in connection with the issuance of the Bonds, ABF will provide instructions to the State Controller's Office to make apportionments to Wilmington Trust, N.A., as bond trustee with respect to each of the Lessees in amounts and on dates provided in a written notice sufficient in the aggregate to repay the Bonds and pay necessary and incidental costs relating to the Bonds. Funds subject to these Intercepts by the State Controller are limited to funding apportioned for purposes of the charter school block grant or the local control funding formula.

V. Mechanics of the Obligated Group Structure

Pursuant to the Master Indenture, all Members of the Obligated Group (initially expected to be DCP1, DCP2 and DCP3) are jointly and severally liable with respect to the payments due in respect of each Obligation issued under the Master Indenture. The Members of the Obligated Group are required to make payments on each related Obligation issued in an amount sufficient to pay the principal of, premium, if any, and interest on the related Bonds when due. Downtown College Prep Foundation is expected to serve as the initial representative of the Obligated Group.

VI. Preliminary Sources and Uses/Cost of Issuance

Below are the preliminary sources and uses, and detailed information about the estimated costs of issuance for board consideration. Please note that these figures are subject to change between the time of board packets being distributed and the time of the board meeting – members will be provided updated figures should they change before the board meeting date.

Sources and Uses

Sources:	Series 2016A (Tax-Exempt)	Series 2016B (Taxable)	Total
Bond Proceeds:			
Par Amount	\$46,390,000.00	\$1,075,000.00	\$47,465,000.00
DCP Equity	\$5,000,000.00	\$0.00	\$5,000,000.00
Uses:	Series 2016A (Tax-Exempt)	Series 2016B (Taxable)	Total
Project Fund Deposits:			
Loan Refinance	\$3,723,549.09	\$0.00	\$3,723,549.09
New Money	\$39,772,348.00	\$0.00	\$39,772,348.00
	\$43,495,897.09	\$0.00	\$43,495,897.09
Other Fund Deposits:			
Capitalized Interest Fund	\$3,595,225.00	\$97,197.92	\$3,692,422.92
Debt Service Reserve Fund	\$3,373,915.92	\$78,184.08	\$3,452,100.00
Delivery Date Expenses:			
Cost of Issuance	\$381,401.42	\$370,950.83	\$752,352.25
Underwriter's Discount	\$541,398.57	\$526,563.93	\$1,067,962.50
	\$922,799.99	\$897,514.76	\$1,820,314.75
Other Uses of Funds:			
Contingency	\$2,162.00	\$2,103.24	\$4,265.24
Total	\$51,390,000.00	\$1,075,000.00	\$52,465,000.00

Cost of Issuance

Cost of Issuance	Estimated Amount
CSFA Admin Fee	\$7,119.75
CSFA Issuance Fee	\$33,732.50
CSFA Issuer Fee - PFD Fee	\$8,000.00
Issuer's Counsel (AG Fee)	\$8,000.00
Underwriter's Counsel	\$50,000.00
Bond Counsel Fee	\$150,000.00
Borrower's Counsel Fee	\$110,000.00
Financial Advisor	\$37,500.00
Financing Consultant	\$150,000.00
Bond/Master Trustee Fee	\$25,000.00
S&P Rating Fee	\$55,000.00
Financial Printer Fee	\$5,000.00
DAC Disclosure Fee	\$2,500.00
Appraisals	\$20,000.00
Title Fees & Charges	\$60,000.00
Verification Agent	\$5,000.00
Contingency	\$31,765.24
Total Costs	\$758,617.49

VII. Borrower/Project User Financial Data

Exhibit A contains current and projected financial information for Downtown College Prep.

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, 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.

IX. Bond Sales Restrictions

The following sales restrictions will apply to the financing given the expected rating of BB- or BB. The Authority's sales restrictions can be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Bonds will be in minimum denominations of \$100,000
2. Bonds may be publicly offered or privately placed
3. Bonds will be sold initially only to Qualified Institutional Buyers (QIB) and Accredited Investors (AI)
4. Subsequent transfers of bonds are limited to QIBs and AIs
5. Sales restrictions conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents
6. If the rating is BB+ or below or the bonds are unrated, 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
7. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code

X. Staff Recommendation

Staff recommends CSFA approve Resolution Number 16-02 authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$50,000,000 to Finance and Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and / or Equipping of Educational Facilities Located in Santa Clara County, California for Downtown College Prep.

Exhibit A – Financial and Operational Information

DOWNTOWN COLLEGE PREP STATEMENT OF FINANCIAL POSITION (FY2015)

ASSETS

Current Assets

Cash	\$ 1,477,648	
Accounts receivable	817,643	
Current portion of pledge receivable	90,000	
Prepaid expenses and other current assets	30,823	
Total Current Assets		\$ 2,416,114

Non-Current Assets

Capital assets	3,595,257	
Less: accumulated depreciation	(291,803)	
Total Non-Current Assets		3,303,454
Total Assets		<u>\$ 5,719,568</u>

LIABILITIES

Current Liabilities

Accounts payable	1,053,757	
Deferred revenue	98,000	
Due to other agencies	108,167	
Current portion of long-term obligations	218,062	
Total Current Liabilities		\$ 1,477,986

Long-Term Debt

Deferred rent	31,500	
Noncurrent portion of long-term obligations	2,042,173	
Total Non-Current Liabilities		2,073,673
Total Liabilities		<u>3,551,659</u>

NET ASSETS

Restricted for:

Scholarships	323,609	
Federal and state programs	108,297	
Associated student body	6,214	
Private funding and other	209,174	
Debt covenants	190,640	
Total Restricted Net Assets		837,934

Unrestricted

		1,329,975
Total Net Assets		<u>2,167,909</u>
Total Liabilities and Net Assets		<u>\$ 5,719,568</u>

**DOWNTOWN COLLEGE PREP
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

	Unrestricted	Temporarily Restricted	Total
REVENUES			
Local control funding formula sources			
State apportionment	\$ 3,519,300	\$ -	\$ 3,519,300
In-lieu property taxes	4,197,528	-	4,197,528
Federal revenue	-	484,947	484,947
State revenue	218,417	40,500	258,917
Local revenues			
Scholarships	-	25,241	25,241
Associated student body	-	2,747	2,747
Private funding	1,230,275	92,494	1,322,769
Other revenues	83,461	-	83,461
Satisfaction of program restrictions	704,495	(704,495)	-
Total Revenue	<u>9,953,476</u>	<u>(58,566)</u>	<u>9,894,910</u>
EXPENSES			
Program services			
Teacher salaries and benefits	3,600,420	-	3,600,420
Academic and student support salaries and benefits	2,062,223	-	2,062,223
Student transportation	131,246	-	131,246
Instructional and student services	684,617	-	684,617
Student scholarships	201,386	-	201,386
Occupancy	682,415	-	682,415
Instructional and student supplies	606,131	-	606,131
Student nutrition	134,861	-	134,861
Equipment leases	58,395	-	58,395
Special education fee	251,053	-	251,053
Depreciation	54,986	-	54,986
Subtotal	<u>8,467,733</u>	<u>-</u>	<u>8,467,733</u>
Management and general			
Administrative salaries and benefits	1,097,388	-	1,097,388
District supervisory fee	76,743	-	76,743
Insurance	53,324	-	53,324
Operating expenses	360,978	-	360,978
Depreciation	4,530	-	4,530
Subtotal	<u>1,592,963</u>	<u>-</u>	<u>1,592,963</u>
Total Expenses	<u>10,060,696</u>	<u>-</u>	<u>10,060,696</u>
NET CHANGE IN NET ASSET	(107,220)	(58,566)	(165,786)
NET ASSETS, BEGINNING	1,437,195	896,500	2,333,695
NET ASSETS, ENDING	\$ 1,329,975	\$ 837,934	\$ 2,167,909

DOWNTOWN COLLEGE PREP
Preliminary Projected Financials (Related Schools)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Enrollment	960	1,456	1,613	1,791	1,876	1,903
ADA	917	1,393	1,543	1,712	1,792	1,818
Revenues						
8012 - Ed. Protection Account - State Aid	\$ 563,306	\$ 824,889	\$ 921,085	\$ 1,010,336	\$ 1,114,166	\$ 1,218,424
8015 - General Purpose - State Aid	2,432,423	4,051,898	4,726,596	5,149,632	5,500,602	5,862,274
8096 - In Lieu of Property Tax	5,028,381	8,096,371	9,323,660	10,186,923	10,969,995	11,786,482
8290 - All Other Federal Revenue	477,623	745,178	620,237	670,356	713,673	738,882
8590 - All Other State Revenue	512,127	1,076,334	1,225,382	1,338,063	1,401,417	1,423,958
8000 - All Other Revenue	312,025	516,253	295,347	366,799	345,052	361,599
Total Revenues	\$ 9,325,885	\$ 15,310,923	\$ 17,112,306	\$ 18,722,109	\$ 20,044,905	\$ 21,391,620
Expenses						
1000 - Certificated Personnel Salaries	\$ 3,047,826	\$ 4,630,670	\$ 5,261,284	\$ 5,915,186	\$ 6,378,102	\$ 6,688,265
2000 - Classified Personnel Salaries	776,020	872,311	965,422	1,042,843	1,074,135	1,106,366
3000 - Employee Benefits	988,975	1,598,103	1,923,182	2,212,571	2,514,395	2,720,201
4000 - Books and Supplies	655,459	1,070,879	1,002,240	1,157,063	1,199,504	1,214,842
5000 - Services & Other Op Expenses	3,142,590	4,129,358	4,611,451	5,092,268	5,421,441	5,636,622
Total Expenses	\$ 8,610,870	\$ 12,301,320	\$ 13,763,579	\$ 15,419,931	\$ 16,587,577	\$ 17,366,296
Net Income Available for Rent	\$ 715,015	\$ 3,009,603	\$ 3,348,727	\$ 3,302,178	\$ 3,457,328	\$ 4,025,324