

\$23,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL GRANT ANTICIPATION NOTES
(OCEAN CHARTER SCHOOL)
SERIES 2016 (Tax-Exempt)

EXECUTIVE SUMMARY
RESOLUTION 16-10

Borrower:	Ocean Charter School (the "Borrower")
Project User:	Ocean Charter School
Loan Amount:	Not to exceed \$23,000,000
Expected Issuance:	June 2016
Project:	The proceeds of the notes will be used to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing and/or Equipping of Educational Facilities Located In Los Angeles County, California for Ocean Charter School
Bond Type:	Charter School Grant Anticipation Notes (Series 2016)
Project Location:	See "Project Information" section
Counties Served:	Los Angeles County
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer(s):	Los Angeles Unified School District
Est. Annual Payment:	\$ 540,000
Anticipated Rating:	Not Rated
Structure:	\$16,765,000 (Tax-Exempt, Fixed Rate Notes), first interest & principal payment in July 1, 2017; final maturity January 1, 2019
Sale Method:	Public Offering
Underwriter:	Piper Jaffray & Co.
Bond Counsel:	Orrick, Herrington, & Sutcliffe LLP
Trustee:	Wilmington Trust, N.A.

I. Use of Note Proceeds / Project Information

Proceeds from the Notes will be used, together with other available funds of the Borrower, to acquire a 2.1 acre site in Los Angeles, California (the School Site) on which will be constructed a charter school facility. The purchase price for the property is \$20,200,000.

The completed project will include construction of a public charter school facility on the property. The site is approved for the intended use, and no additional entitlements are required to develop the site for its intended purposes. The total cost of the project is estimated at approximately \$53,200,000 including the \$27,000,000 Augmentation grant awarded to the Borrower by the Los Angeles Unified School District and other miscellaneous costs.

Site	Landlord	Location	Purpose	Amount
Panama Street	N/A	12870 Panama Street, Los Angeles, CA 90066	Acquisition	\$20,200,000
Panama Street	N/A	12870 Panama Street, Los Angeles, CA 90066	Soft Costs	\$2,500,000
Panama Street	N/A	12870 Panama Street, Los Angeles, CA 90066	Construction & Equipping	\$28,644,000
Panama Street	N/A	12870 Panama Street, Los Angeles, CA 90066	Financing & Interest	\$1,856,000
Panama Street	N/A	12870 Panama Street, Los Angeles, CA 90066	LAUSD Augmentation Grant	\$25,000,000
Total Estimated Project Costs				\$78,200,000

In 2011, the State Allocation Board awarded Ocean Charter School (the Borrower) a preliminary apportionment of approximately \$20 million through the Proposition 1D funding round of the Charter School Facilities Program (Program) to construct a permanent school facility. To date, the Borrower has received \$7,540,000 of the Grant funds for design and site acquisition costs. The Borrower must complete the design of the facility, and obtain the design approvals described below prior to May 3, 2017 in order to receive the balance of their apportionment through the Program. It is anticipated that the final approved project design, including site acquisition costs, will be eligible for a total Grant of approximately \$25,000,000. The total amount of Grant funds will not be known until the Borrower submits all estimated project expenses based on the approved design and SAB approves, by Resolution, the final Grant apportionment. In addition, the State School Building Finance Committee must take action to authorize the issuance of State general obligation bonds in an amount sufficient to fund the apportionment represented by the Grant and funds in the specific amount requested must be approved by the SAB. The Borrower reasonably expects that this process will be completed in the fall of 2017. Additionally, on April 12, 2016, the Board of the Los Angeles Unified School District unanimously approved an Augmentation Grant of \$27,000,000 for Ocean Charter School's project. The Augmentation Grant will be applied by the Borrower, along with the Grant funds, to fund costs of construction of the facility.

II. Ocean Charter School

Ocean Charter School ("OCS") is a nonprofit public benefit corporation that has been determined to be a 501(c)(3) organization and is a California public charter school. The Borrower received its 501(c)(3) status on May 17, 2004 and was approved to operate as a public charter school by the Los Angeles Unified

School District (LAUSD) in 2003, with charter renewals in 2008 and 2013. LAUSD observed and reported in its latest oversight visit dated October 1, 2015 that the Borrower is accomplished or proficient in all examined areas. Of note, the Governing Board was rated as having “fully implemented the organizational structure set forth in the approved charter”.

Since its founding, the Borrower has provided an academically rigorous program integrated with rich practices that raise the educational achievement and life possibilities for students. Evidence of the Borrower’s successful academic program in the STAR (Standardized Testing and Reporting) include a 2013 school wide Growth API (Academic Performance Index) average exceeding 800, and a weighted 3-year average API of 837. The CAASPP (California Assessment of Student Performance and Progress) replaced the STAR, and per the most recent CAASPP data, the school outperformed LAUSD for grades 4th through 8th in both English Language Arts and Math. The Borrower serves 532 students in grades TK-8 in West Los Angeles and is known as an arts integrated and high academic achieving charter school in Los Angeles and the State of California.

III. Financial Structure

The Notes are expected to have a term of approximately 30 months. Interest on the Notes will be prefunded with funds of the Borrower upon Note closing and paid quarterly commencing on October 1, 2016. Principal, interest and any premium will be paid upon maturity or on any call date. The first call date is July 1, 2017. Notes are callable in whole or in part on any day thereafter.

Because the interest will be prefunded, payments on the Notes will not be subject to the Intercept.

IV. Security and Source of Payment

The Notes are secured by the gross revenues with respect to any school operated or to be operated by the Borrower at the Facility legally available for payment of the obligations of the Borrower under the Loan Agreement. The Borrower expects to pay amounts due under the Loan Agreement with proceeds of the CSFP grant received by the State.

Investors will also receive a subordinate lien deed of the trust on the School Site; such deed of trust benefitting the Investors will be subordinate to the deed of trust recorded for the benefit of the State in connection with the CSFP program

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. *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:		Total
Bond Proceeds:		
Par Amount	\$16,765,000.00	\$16,765,000.00
Equity	\$7,830,934.91	\$7,830,934.91
Total	\$24,595,934.91	\$24,595,934.91
Uses:		
Project Fund Deposits:		
Acquisition	\$20,200,000.00	\$20,200,000.00
Soft Costs	<u>\$2,500,000.00</u>	<u>\$2,500,000.00</u>
	\$22,700,000.00	\$22,700,000.00
Other Fund Deposits:		
Capitalized Interest Fund	\$1,386,372.41	\$1,386,372.41
Delivery Date Expenses:		
Cost of Issuance	\$295,000.00	\$295,000.00
Underwriter's Discount	<u>\$214,562.50</u>	<u>\$214,562.50</u>
	\$509,562.50	\$509,562.50
Total	\$24,595,934.91	\$24,595,934.91

Cost of Issuance

<u>Cost Description:</u>	<u>Budgeted Amount</u>
Issuer Fee	\$12,573.75
AG Counsel Fee	\$8,000.00
State Treasurer - PFD	\$6,000.00
Bond Counsel Fee	\$110,000.00
Borrower's Counsel Fee	\$50,000.00
Underwriter's Counsel Fee	\$65,000.00
Trustee Fee	\$5,000.00
Title	\$10,000.00
Miscellaneous	\$28,426.25
Total COI	\$295,000.00

**Based on a par amount of \$16,765,000*

VI. Borrower Financial Data

Exhibit A contains historical and projected financial information for the Borrower.

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

The following sales restrictions will apply to the financing given that the notes will be unrated. The Authority's sales restrictions can be viewed at:

<http://www.treasurer.ca.gov/csfa/financings/guidelines.pdf>

1. Notes will be in minimum denominations of \$100,000
2. Notes will be privately placed or publicly offered initially to QIBs and AIs
3. Notes purchasers will be required to execute an initial Investor Letter
4. Subsequent transfers of notes are limited to QIBs and AIs
5. Sales restrictions conspicuously noted on notes and described in detail in offering materials, if any, as well as in the note documents
6. 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

IX. Staff Recommendation

Staff recommends CSFA approve Resolution Number 16-10 authorizing the Issuance of Charter School Grant Anticipation Notes in an Amount Not to Exceed \$23,000,000 to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing and/or Equipping of Educational Facilities Located in Los Angeles County, California for Ocean Charter School

Exhibit A – Financial and Operational Information

STATEMENT OF FINANCIAL POSITION
Fiscal Years ended June 30, 2015

OCEAN CHARTER SCHOOL
(A California Non-Profit Public Benefit Corporation)

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015

ASSETS

Current Assets

Cash	\$ 1,233,080	
Restricted Cash	7,334,326	
Accounts receivable	410,563	
Prepaid expenses	<u>76,086</u>	
Total Current Assets		\$ 9,054,055

Non-Current Assets

Fixed assets	321,221	
Less: accumulated depreciation	<u>163,015</u>	
Total Non-Current Assets		<u>158,206</u>

Total Assets \$ 9,212,261

LIABILITIES

Current Liabilities

Accounts payable	151,596	
Deferred revenue	<u>7,375,821</u>	
Total Current Liabilities		\$ 7,527,417

Long-Term Debt

Non-current portion of long-term obligations		<u>86,364</u>
Total Liabilities		<u>7,613,781</u>

NET ASSETS

Unrestricted	<u>1,598,480</u>	
Total Net Assets		<u>1,598,480</u>

2015-16 Budget and Projected 5-Year Financials (Continued)

Ocean Charter School
 Five Year Budget Detail
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	-3	-2	-1	0	0	1	2	3	4
	2013-14	2014-15	2015-16	2016-17 Budget - Approved	2016-17 Forecast	2017-18	2018-19	2019-20	2020-21
1110 Teachers' Salaries	1,032,361	1,102,608	1,180,564		1,296,978	1,395,356	1,430,936	1,449,267	1,464,175
1120 Teachers' Hourly	-	-	-		-	-	-	-	-
1170 Teacher Salaries - Substitute	41,132	41,309	50,845		17,280	17,453	17,627	17,627	17,627
1175 Teachers' Salaries - Stipend/Extra Duty	2,000	25,513	6,525		1,250	1,263	1,275	1,275	1,275
1200 Certificated Pupil Support Salaries	-	-	-		-	-	-	-	-
1300 Certificated Supervisor and Administrator Salaries	186,650	197,350	200,377		199,323	201,316	203,329	203,329	203,329
1900 Other Certificated Salaries	-	-	-		-	-	-	-	-
Total 1000 - Certificated Salaries	1,262,143	1,366,780	1,438,311		1,514,831	1,615,387	1,653,167	1,671,499	1,686,406
2000 - Classified Salaries									
2100 Instructional Aide Salaries	392,839	503,310	584,413		595,034	625,294	543,319	543,319	543,319
2200 Classified Support Salaries (Maintenance, Food)	21,525	27,968	32,543		44,552	44,997	42,053	42,053	42,053
2300 Classified Supervisor and Administrator Salaries	-	-	-		-	-	-	-	-
2400 Clerical/Technical/Office Staff Salaries	251,683	296,587	315,157		314,251	317,393	258,495	258,495	258,495
2900 Other Classified Salaries (Supervision, After School)	103,394	102,454	104,722		104,707	105,754	102,038	102,038	102,038
Total 2000 - Classified Salaries	769,440	930,320	1,036,835		1,058,544	1,093,439	945,905	945,905	945,905
3000 - Employee Benefits									
3111 STRS - State Teachers Retirement System	103,127	118,650	148,953		231,639	281,729	324,548	364,752	387,114
3311 OASDI - Social Security	47,956	59,204	65,973		45,387	46,899	37,543	37,543	37,543
3331 MED - Medicare	29,403	33,187	35,869		37,314	39,278	37,687	37,952	38,169
3401 H&W - Health & Welfare	217,437	216,520	247,914		291,071	296,294	320,775	347,215	385,489
3501 SUI - State Unemployment Insurance	1,014	1,145	884		1,287	1,354	1,300	1,309	1,316
3601 Workers' Compensation	29,162	25,163	24,939		26,965	29,520	29,457	30,851	32,268
3901 4038	36,385	40,253	31,164		23,817	24,602	21,283	21,283	21,283
3902 Other Benefits	3,035	(164)	3,269		-	-	-	-	-
Total 3000 - Employee Benefits	467,519	493,958	558,964		657,480	719,678	772,592	840,905	903,183
4000 - Supplies									
4110 Approved Textbooks and Core Curriculum Materials	41,851	4,820	388		5,185	5,295	5,436	5,584	5,723
4210 Books and Other Reference Materials	5,004	5,700	7,460		4,297	4,389	4,505	4,628	4,743
4310 Student Materials	65,335	44,235	50,000		77,453	82,783	84,799	87,105	89,283
4350 Office Supplies	12,545	9,887	15,000		15,000	16,365	16,799	17,256	17,687
4370 Custodial Supplies	2,303	4,035	4,295		4,600	5,019	5,152	5,292	5,424
4390 Other Supplies	31,643	42,344	27,737		30,000	30,639	31,451	32,306	33,114
4400 Non Capitalized Equipment	36,268	50,742	11,000		2,000	5,043	4,097	5,154	5,208
4700 Food and Food Supplies	17,274	56,804	54,408		66,925	71,852	72,211	72,572	72,935
Total 4000 - Supplies	212,224	218,567	170,288		205,460	221,384	224,449	229,896	234,117
5000 - Operating Services									
5200 Travel and Conferences	23,764	56,144	20,000		43,400	44,324	45,499	46,737	47,905
5300 Dues and Memberships	6,903	8,739	34,912		29,520	31,184	32,011	32,882	33,704
5450 General Insurance	28,416	33,231	34,642		36,376	39,687	40,739	41,847	42,893

2015-16 Budget and Projected 5-Year Financials (Continued)

Ocean Charter School
Five Year Budget Detail
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	2013-14	2014-15	2015-16	2016-17 Budget - Approved	2016-17 Forecast	2017-18	2018-19	2019-20	2020-21
5500 Operation and Housekeeping Services	15,696	26,254	21,524		37,452	38,250	62,927	64,638	66,254
5610 Rent - Facilities / Buildings / Space	305,353	325,336	360,504		382,931	391,088	-	-	-
5620 Equipment Lease	23,638	30,906	39,807		32,200	32,886	24,322	24,984	25,608
5630 Vendor Repairs	3,171	10,751	19,414		24,500	25,022	12,056	12,384	12,694
5812 Field Trips/Pupil Transportation	40,701	57,818	59,660		66,830	68,253	70,062	71,968	73,767
5820 Legal / Audit Fees	28,663	45,512	148,610		104,450	56,675	58,177	59,759	61,253
5830 Advertisement / Recruitment	1,325	1,714	800		2,100	2,145	2,202	2,261	2,318
5850 Non Instructional Consultants	25,542	15,695	25,639		11,668	11,916	12,232	12,565	12,879
5851 Instructional Consultants	268,462	312,696	298,820		307,734	314,289	322,618	331,393	339,678
5853 ExED	83,000	83,000	81,650		81,650	85,733	90,019	94,520	99,246
5855 Prop ID Expenditures	29,056		31,084		-	-	-	-	-
5890 Other Fees / Bank Charges /Credit Card Fees	17,432	23,682	25,222		28,374	28,979	29,747	30,556	31,320
5891 CSC Factoring Fees	-	-	-		-	-	-	-	-
5896 Special Ed Fair Share (LAUSD)	123,329	154,900	226,444		246,249	306,904	306,904	306,904	306,904
5897 Fundraising Cost	37,737	27,158	43,551		34,500	35,235	36,169	37,152	38,081
5900 Communications	12,656	29,465	36,384		36,852	37,637	28,818	29,602	30,342
5920 Internet Expense / Web Hosting	CHECK	CHECK	-		-	-	-	-	-
5930 Postage Expense /UPS/ FEDEX	CHECK	CHECK	-		-	-	-	-	-
Total 5000 - Operating Services	1,074,844	1,243,001	1,508,667		1,506,787	1,550,207	1,174,501	1,200,152	1,224,847
6000 - Capital Outlay									
6901 Depreciation Expense	4,537	3,387	8,354		8,687	7,821	7,427	6,891	633
Total 6000 - Capital Outlay	4,537	3,387	8,354		8,687	7,821	7,427	6,891	633
7000 - Other Outgo									
7221 Transfers to District	-	-	-		-	-	-	-	-
7299 District Oversight Fee	26,049	29,258	33,427		35,716	38,790	39,758	40,806	41,925
7311 Indirect Costs	-	-	-		-	-	-	-	-
7438 Debt Service - Interest	-	-	-		-	-	-	181,024	192,744
Total 7000 - Other Outgo	26,049	29,258	33,427		35,716	38,790	39,758	221,830	234,669
TOTAL EXPENSE	3,816,756	4,285,271	4,754,846		4,987,505	5,246,706	4,817,800	5,117,079	5,229,759
NET INCOME	15,219	118,958	2,586,213		1,140,031	30,957,515	7,795,979	415,624	249,982
Beginning Cash Balance	7,869,660	8,681,296	8,567,118		3,402,951	1,615,975	1,482,719	536,430	755,477
Cash Flow from Operating Activities									
Net Income	15,219	118,958	2,586,213		1,140,031	30,957,515	7,795,979	415,624	249,982
Change in Accounts Receivable	-	-	-		-	-	-	-	-
Prior Year Accounts Receivable	1,034,874	487,841	409,592		372,490	464,089	499,474	447,700	446,414
Current Year Accounts Receivable	(413,197)	(410,375)	(351,764)		(464,089)	(499,474)	(447,700)	(446,414)	(470,160)
Change in Due from	-	0	-		-	-	-	-	-
Change in Accounts Payable	90,713	(60,099)	(69,954)		(36,744)	-	-	-	-

2015-16 Budget and Projected 5-Year Financials (Continued)

Ocean Charter School
Five Year Budget Detail
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	2013-14	2014-15	2015-16	2016-17 Budget - Approved	2016-17 Forecast	2017-18	2018-19	2019-20	2020-21
Change In Due to	70,972	(71,951)	(18,451)		5,149	19,581	19,475	19,818	20,367
Change In Accrued Vacation	-	-	-		-	-	-	-	-
Change In Payroll Liabilities	(4,804)	6,298	(22,620)		-	-	-	-	-
Change In Prepaid Expenditures	(3,798)	(36,743)	74,924		-	-	-	-	-
Change In Deposits	-	-	-		-	-	-	-	-
Change In Interest Escrow	-	-	(1,089,725)		544,863	544,863	-	-	-
Change In Deferred Revenue	16,852	(86,213)	(5,230,610)		(1,875,000)	(270,211)	-	-	-
Depreciation Expense	4,537	3,387	8,354		8,687	7,821	7,427	6,891	633
Cash Flow from Investing Activities									
Capital Expenditures - Land & Buildings	(28,786)	(65,282)	(20,380,868)		(1,875,000)	(22,287,832)	(7,220,944)	-	-
Capital Expenditures - Interest & Financing	-	-	(459,563)		(544,863)	(272,431)	-	-	-
Cash Flow from Financing Activities									
Source - CPSA Bonds	-	-	16,765,000		-	(16,765,000)	-	-	-
Source - Unrestricted Reserves	-	-	-		-	-	-	-	-
Source - Loans	29,055	-	2,615,305		937,500	12,159,275	-	-	-
Use - Loans	-	-	-		-	(4,191,451)	(1,600,000)	(224,573)	(249,726)
Ending Cash Balance	8,681,296	8,567,118	3,402,951		1,615,975	1,482,719	536,430	755,477	752,985
Month with Lowest Ending Cash Balance			Jul: \$		May: \$1,538,730	Dec: \$782,943	Jun: \$536,430	Dec: \$426,288	Dec: \$604,988
5% Reserve Goal	190,838	214,264	237,742		249,375	262,335	240,890	255,854	261,488
Net Income as a Percent of Expenses	0.4%	2.8%	54.4%		22.9%	590.0%	161.8%	8.1%	4.8%
Ending Cash as a Percent of Expenses	227.5%	199.9%	71.6%		32.4%	28.3%	11.1%	14.8%	14.4%