

\$19,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(ENCORE EDUCATION OBLIGATED GROUP)
SERIES 2016A (Tax-Exempt) AND SERIES 2016B (Taxable)

EXECUTIVE SUMMARY
RESOLUTION 16-16

Borrower:	Western Encore Properties Incorporated (the “Borrower”)
Project User:	Encore Education Corporation for Encore Junior and Senior High School for the Performing and Visual Arts
Loan Amount:	Not to exceed \$19,000,000
Expected Issuance:	July 2016
Project:	The proceeds of the bonds will be used to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing and/or Equipping of Educational Facilities Located In San Bernardino County, California for Encore Junior and Senior High School for the Performing and Visual Arts
Bond Type:	Charter School Revenue Bonds
Project Location:	See “Project Information” Section
Counties Served:	San Bernardino County
District in which Project is Located:	Hesperia Unified School District
Charter Authorizer(s):	Hesperia Unified School District
Est. Annual Payment:	2017-2021: \$1,330,000 2022-2051: \$1,045,000
Anticipated Rating:	Not Rated
Structure (Preliminary):	\$14,775,000 (Tax-Exempt) and \$2,135,000 (Taxable)
Sale Method:	Limited Public Offering
Underwriter:	Stifel, Nicolaus & Company, Incorporated
Bond Counsel:	Stradling, Yocca, Carlson, and Rauth, a Professional Corporation
Trustee:	U.S. Bank National Association

I. Use of Bond Proceeds / Project Information

The proceeds of the Bonds will be used to (i) finance certain costs of the acquisition, construction, improvement, equipping and furnishing of certain public charter school facilities; (ii) fund a debt service reserve account (the "Reserve Account"); and (iii) pay costs of issuance of the Bonds. Encore Junior and Senior High School for the Performing and Visual Arts is currently operating in a facility located on a site of approximately 13.69 acres at 16955 Lemon Street in the City of Hesperia, California. Approximately \$1,408,000 of proceeds from the Bonds will be used to reimburse Encore Education for prior improvements to the facility.

Site	Landlord	Location	Purpose	Amount
Encore High School for the Arts - Hesperia Campus	16955 Lemon Street LLC	16955 Lemon Street, Hesperia, CA 92345 (San Bernardino County)	Financing the purchase of existing 13.69-acre campus (Encore's current facility)	\$11,500,000
Encore High School for the Arts - Hesperia Campus	16955 Lemon Street LLC	16955 Lemon Street, Hesperia, CA 92345 (San Bernardino County)	Financing the purchase of currently-leased, on-site relocatable portables and tent structure	\$1,092,389
Encore High School for the Arts - Hesperia Campus	16955 Lemon Street LLC	16955 Lemon Street, Hesperia, CA 92345 (San Bernardino County)	Financing the upgrade of on-site HVAC system	\$200,000
Encore High School for the Arts - Hesperia Campus	16955 Lemon Street LLC	16955 Lemon Street, Hesperia, CA 92345 (San Bernardino County)	Financing of various Tenant Improvements to the Facility	\$500,000
Encore High School for the Arts - Hesperia Campus	16955 Lemon Street LLC	16955 Lemon Street, Hesperia, CA 92345 (San Bernardino County)	Taxable financing of reimbursement to Encore for cash paid for past tenant improvements	\$1,408,368
Total Estimated Project Costs				\$14,700,758

The Project includes the purchase by the Member of the Facility from FDJ Hesperia pursuant to a purchase and sale agreement, dated as of May 10, 2016, by and between 16955 Lemon Street, LLC and FDJ Hesperia. Pursuant to the PSA, the Member will purchase the Facility from FDJ Hesperia for the purchase price of \$11,500,000, concurrently with the issuance of the Bonds. Additional proceeds of the Bonds will be used by the Borrower to (i) upgrade the HVAC system in certain of the Facility's buildings at a cost of approximately \$200,000, (ii) finance various tenant improvements to the Facility at a cost of approximately \$500,000 and (iii) purchase (A) certain of the relocatable portable classroom and office structures currently being leased by Encore Education for the purchase price of approximately \$925,000 and (B) the tent structure currently being leased by Encore Education for the purchase price of approximately \$167,000. During the Project and following completion thereof, Encore Education will continue to operate Encore Hesperia in the Facility pursuant to a Lease Agreement, dated as of July 1, 2016 (the "Lease"), by and between the Member and Encore Education.

II. Borrower

Western Encore Properties Incorporated is a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. The Borrower is organized and operated exclusively for charitable purposes and was formed by Encore Education

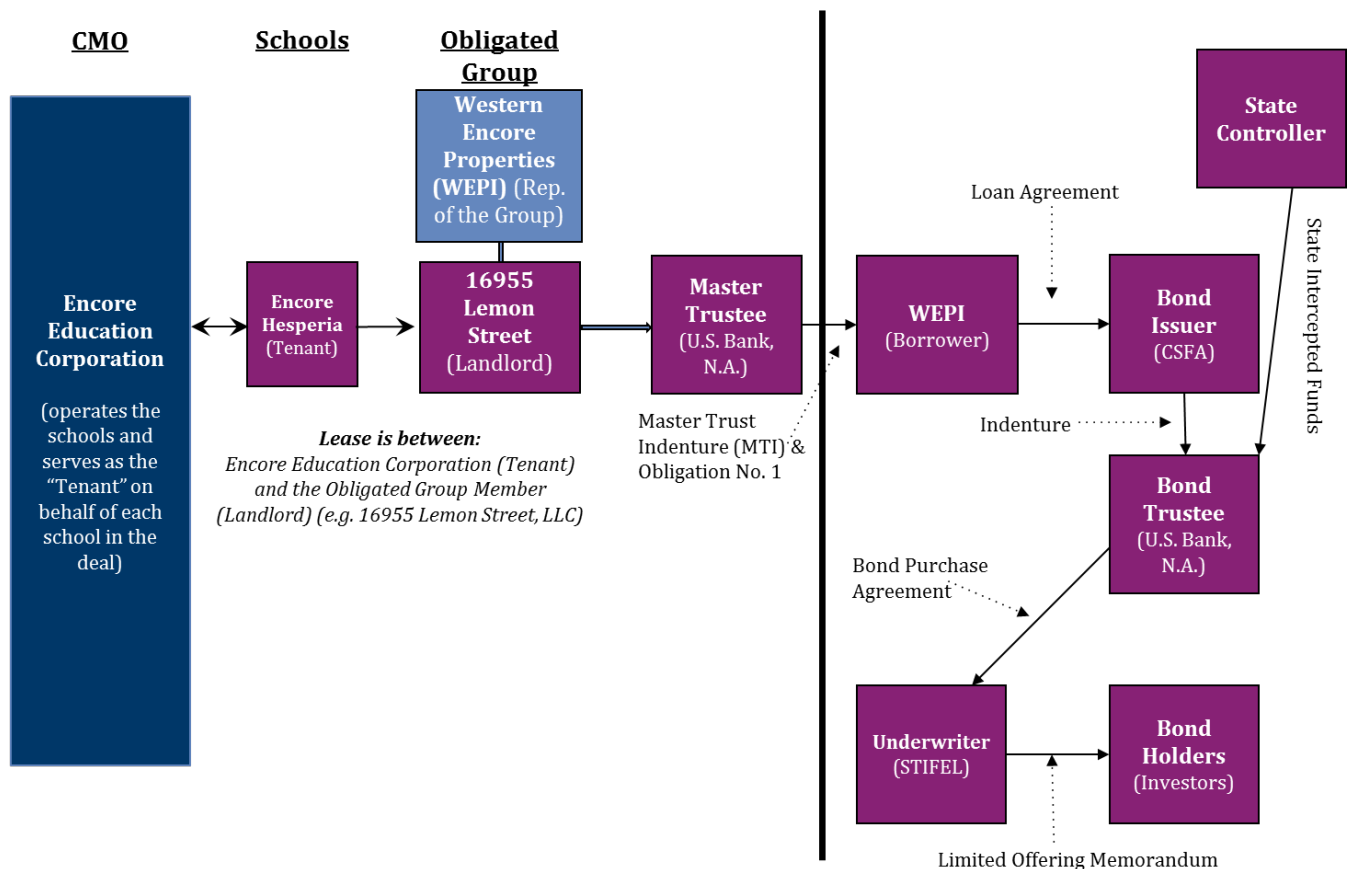
Corporation in 2015 as a support organization for Encore Education Corporation. The Borrower is the sole member of 16955 Lemon Street, LLC, a California limited liability company, which was organized in 2016. 16955 Lemon Street, LLC will be the sole Member of the Obligated Group with respect to the Bonds. Upon delivery of the Bonds, 16955 Lemon Street, LLC will become the fee simple owner of Encore Junior and Senior High School for the Performing and Visual Arts – Hesperia (the “Facility”). 16955 Lemon Street, LLC will act as the Lessor for the Facility to the Lessee pursuant to a Lease dated as of July 1, 2016 by and between the Lessee and the Lessor. The Borrower is a party to the Loan Agreement, as borrower thereunder, and is a party to the Master Indenture, as the representative of the Member of the Obligated Group. However, the Borrower is not itself a Member of the Obligated Group.

III. Encore Charter School

Encore Hesperia is located at 16955 Lemon Street in the City of Hesperia, California. Encore Hesperia serves over 1,200 students in 7th through 12th grade. The Board of Trustees of the Hesperia Unified School District (Hesperia USD) serves as the chartering authority for Encore Hesperia. The charter for Encore Hesperia has been authorized by the Hesperia USD since 2007 and was renewed in 2011 for a five-year term. The current charter for Encore Hesperia was scheduled to expire by its terms on June 30, 2016. On May 9, 2016, the Hesperia USD Governing Board acted to renew Encore Hesperia’s charter for five years. The renewed charter will expire on June 30, 2021.

IV. Financial Structure

The following diagram describes the flow of funds under the Lease, Master Indenture, and Bond Indenture following the delivery of the Bonds.



V. 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 the supplemental Master Indenture for 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, Encore Education will provide instructions to the State Controller’s Office to make apportionments to U.S. Bank National Association, 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.

VI. 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:	Series 2016A (Tax-Exempt)	Series 2016B (Taxable)	Total
Bond Proceeds: Par Amount	\$14,775,000.00	\$2,135,000.00	\$16,910,000.00
Uses:	Series 2016A (Tax-Exempt)	Series 2016B (Taxable)	Total
Project Fund Deposits: Project Fund	\$12,792,389.26 \$12,792,389.26	\$1,908,368.28 \$1,908,368.28	\$14,700,757.54 \$14,700,757.54
Other Fund Deposits: Debt Service Reserve Fund	\$1,191,310.99	\$172,145.45	\$1,363,456.44
Delivery Date Expenses: Cost of Issuance Underwriter's Discount	\$159,060.58 \$131,439.41 \$290,499.99	\$301,368.92 \$249,035.59 \$550,404.51	\$460,429.50 \$380,475.00 \$840,904.50
Other Uses of Funds: Contingency	\$799.76	\$4,081.76	\$4,881.52
Total	\$14,275,000.00	\$2,635,000.00	\$16,910,000.00

Cost of Issuance

<u>Cost of Issuance:</u>	<u>Budgeted Amount</u>
Issuer Fee	\$28,991.50
Agent-for-Sale Fee	\$6,000.00
Bond & Disclosure Counsel Fee	\$135,000.00
Borrower's Counsel Fee	\$85,000.00
Trustee Fee	\$10,000.00
Trustee's Counsel Fee	\$5,000.00
Underwriter's Counsel	\$50,000.00
Financial Consultant & Dissemination Agent	\$47,500.00
Financial Printer Fee (Includes Net Roadshow Fees)	\$7,500.00
Miscellaneous COI (<i>specify</i>)	
Contingency	\$40,000.00
Appraisal	\$15,000.00
Title Insurance	\$30,438.00
Total COI	\$460,429.50

**Based on a par amount of \$16,910.000*

VII. Borrower Financial Data

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

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 that the bonds will be unrated. The Authority's sales restrictions can be viewed

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

1. Bonds will be in minimum denominations of \$250,000
2. Bonds will be privately placed or publicly offered initially to QIBs and AIs
3. Bonds purchasers will be required to execute an initial Investor Letter
4. Subsequent transfers of bonds 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
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 16-16 authorizing the Issuance of Charter School Revenue Bonds in an Amount Not-to-Exceed \$19,000,000 to Finance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing and/or Equipping of Educational Facilities Located in San Bernardino County, California for Encore Junior and Senior High School for the Visual and Performing Arts.

Exhibit A – Financial and Operational Information

STATEMENT OF FINANCIAL POSITION
Fiscal Years ended June 30, 2015

Balance Sheet

		2014-15
Assets		
Current Assets		
Cash in Bank		638,635
Accounts Receivable		1,499,813
Prepaid Expenses		114,992
Other Current Assets		-
<i>Total Current Assets</i>		<u>2,253,440</u>
Property and Equipment, Net		1,696,764
Deposit - Rent		78,957
Total Assets		4,029,161
Liabilities & Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses		441,877
Accrued Payroll and Payroll Liabilities		335,639
Deferred Revenue		-
Current Portion of Long-Term Debt		3,500,000
<i>Total Current Liabilities</i>		<u>4,277,516</u>
Long-Term Debt		
Notes Payable		3,500,000
State Revolving Loan		-
Less: Current Portion of Long-Term Debt		(3,500,000)
<i>Total Long-Term Debt</i>		<u>-</u>
<i>Total Liabilities</i>		<u>4,277,516</u>
Net Assets (Deficiency)		
Unrestricted		(292,882)
Temporarily Restricted		44,527
<i>Total Net Assets</i>		<u>(248,355)</u>
Total Liabilities and Net Assets		4,029,161

2015-16 Budget and Projected 5-Year Financials

	Estimated 2015-16	Projected 2016-17	Projected 2017-18	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22
Enrollment & ADA							
Enrollment:	1,191.00	1,228.00	1,228.00	1,228.00	1,228.00	1,228.00	1,228.00
Average Daily Attendance:	1,147.05	1,147.05	1,147.05	1,147.05	1,147.05	1,147.05	1,147.05
REVENUES							
Local Control Funding Formula (LCFF):							
State Aid Portion	\$ 7,424,464	\$ 7,919,551	\$ 8,348,118	\$ 9,186,997	\$ 10,225,401	\$ 10,812,503	\$ 10,812,503
Education Protection Account Portion	1,729,303	1,666,165	1,532,872	733,113	-	-	-
In-Lieu of Property Taxes Portion	348,829	348,829	348,829	348,829	348,829	348,829	348,829
Federal Revenues	633,801	640,139	646,540	653,006	659,536	666,131	666,131
Other State Revenues:							
Lottery Revenue	216,838	216,838	216,838	216,838	216,838	216,838	216,838
One-Time Statewide Grants	621,328	289,057	-	-	-	-	-
All Other State Revenue	1,394,818	1,399,843	1,404,918	1,410,044	1,415,221	1,420,450	1,420,450
Other Local Revenue	373,106	278,250	282,400	282,400	282,400	282,400	282,400
TOTAL REVENUES	\$ 12,742,488	\$ 12,758,672	\$ 12,780,515	\$ 12,831,226	\$ 13,148,225	\$ 13,747,151	\$ 13,747,151
EXPENSES							
Salaries Certificated	\$ 2,791,235	\$ 2,796,725	\$ 2,866,478	\$ 2,938,323	\$ 3,012,323	\$ 3,088,543	\$ 3,088,543
Salaries Classified	2,976,800	2,964,913	2,996,204	3,034,190	3,078,497	3,128,796	3,128,796
Employee Benefits	1,811,832	1,954,168	2,056,819	2,144,229	2,338,393	2,460,619	2,460,619
Books and Supplies	645,504	675,283	656,477	665,389	674,524	683,887	683,887
Services and Operations	2,051,951	1,476,828	1,294,965	1,323,146	1,345,216	1,380,191	1,380,191
Current Facility Rent/Lease Expense	1,258,000	95,000	-	-	-	-	-
Depreciation and Amortization	170,000	127,500	121,000	109,450	98,840	92,000	92,000
Base Rent (Preliminary)	-	1,216,851	1,373,313	1,341,663	1,335,338	1,392,713	1,044,563
TOTAL EXPENSES	\$ 11,705,321	\$ 11,307,268	\$ 11,365,255	\$ 11,556,389	\$ 11,883,130	\$ 12,226,749	\$ 11,878,599
INCREASE IN NET ASSETS	\$ 1,037,166	\$ 1,451,404	\$ 1,415,260	\$ 1,274,837	\$ 1,265,094	\$ 1,520,402	\$ 1,868,552
Add Back: Depreciation	170,000	127,500	121,000	109,450	98,840	92,000	92,000
Add Back: Base Rent*	1,258,000	1,216,851	1,373,313	1,341,663	1,335,338	1,392,713	1,044,563
(A) NOI Available for Base Rent	\$ 2,465,166	\$ 2,795,755	\$ 2,909,573	\$ 2,725,950	\$ 2,699,272	\$ 3,005,115	\$ 3,005,115
(B) Base Rent	1,258,000	1,216,851	1,373,313	1,341,663	1,335,338	1,392,713	1,044,563
(A/B) Base Rent Coverage Ratio	1.96x	2.30x	2.12x	2.03x	2.02x	2.16x	2.88x

*For 2015-16, the Current Facility Rent/Lease Expense is used as "Base Rent."