

\$14,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(ACE CHARTER SCHOOLS – OBLIGATED GROUP)
SERIES 2016A (TAX-EXEMPT) AND 2016B (TAXABLE)

EXECUTIVE SUMMARY
RESOLUTION 16-21

Borrower:	ACE Charter School Foundation, Inc. (the “Borrower”)
Project User:	ACE Empower Academy Middle School and ACE Franklin-Mc Kinley Middle School
Loan Amount:	Not to exceed \$14,000,000
Expected Issuance:	October 2016
Project:	The proceeds of the bonds 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 (Taxable and Tax Exempt Series)
Project Location:	See “Project Information” section
Counties Served:	Santa Clara County
District in which Project is Located:	ACE Empower – Alum Rock Union School District ACE Franklin McKinley – Franklin-McKinley School District
Charter Authorizer:	ACE Empower – Santa Clara County Office of Education ACE Franklin McKinley – Franklin McKinley School District
Est. Annual Payment:	\$830,000
Anticipated Rating:	Not Applicable
Structure:	\$11,690,000 (Tax-Exempt) and \$720,000 (Taxable)
Sale Method:	Public Limited Offering
Underwriter:	Stifel, Nicolaus & Company
Bond Counsel:	Orrick Herrington and Sutcliffe, LLP
Trustee:	Wilmington Trust, N.A.

I. Use of Bond Proceeds / Project Information

ACE Charter School Foundation, Inc. will use bond proceeds to refinance existing debt as well as make improvements at two ACE schools – ACE Empower and ACE Franklin McKinley.

The ACE Empower Site is owned by Alum Rock Unified Elementary School District (ARUESD) and leased to ACE Charter. ACE Charter School LLC, as tenant, is responsible for the cost of all improvements to the ACE Empower Site and will own any improvements made during the term of the ACE Empower Ground Lease. Following the termination of the ACE Empower Ground Lease, ownership of all improvements will transfer to ARUESD. In 2012, ACE Charter School LLC completed construction of certain improvements at the ACE Empower Site. This construction included the construction of 19 prefabricated modular structures comprising 18 classrooms and one administration building (totaling approximately 19,680 square feet), walkways adjacent to each structure, a paved courtyard, a U-shaped driveway around the perimeter of the buildings, and parking. The 2012 improvements were partially financed with the proceeds of a \$3,750,000 loan from Low Income Investment Fund, a California nonprofit public benefit corporation (the "LIIF Loan") and the proceeds of a \$300,000 note from Robert A. Bothman Construction (the "Bothman Note"). The "ACE Empower Project" includes the prepayment of the LIIF Loan and the Bothman Note, and the financing of the construction of a multi-purpose building and shade structure, totaling approximately 3,600 square feet. When completed, the completed ACE Empower Site will comprise a total of approximately 19,680 square-feet, including 18 modular classrooms, a multi-purpose building, a shade structure and office space (collectively the "ACE Empower Facility"). The ACE Empower Facility will accommodate approximately 435 students in grades 5-8 and related faculty and administrative staff.

ACE FM is currently located at the ACE FM Site which is owned by Franklin McKinley SD. On February 9, 2016, Franklin McKinley SD entered into a ground lease with ACE Charter and ACE Charter School LLC, as tenants, whereby ACE Charter will continue to occupy and use the ACE FM Site pursuant to the FUA until June 30, 2017, at which time the FUA will be terminated and ACE Charter and ACE Charter School LLC will go into possession of the ACE FM Site pursuant to the ground lease. The "ACE FM Project" includes the financing of construction and improvements to the ACE FM Site, including 11 new modular classrooms (approximately 10,560 square feet), a modular administration building (approximately 1,440 square feet), and a new restroom building (approximately 480 square feet). When completed, the completed ACE FM Site will comprise a total of approximately 44,477 square-feet of improvements, including 17 classrooms, an administrative building, a restroom building, a portion of the existing mini-gym and restroom building, and shared use of a parking lot, playfield, cafeteria and other common areas (collectively the "ACE FM Facility"). The ACE FM Facility will accommodate approximately 435 students in grades 5-8 and related faculty and administrative staff.

SUMMARY OF THE PROJECT

Project Description	Property Interest and Size of Site⁽¹⁾	Description of Improvements	Construction Completed	School Opened⁽²⁾	Current Enrollment⁽²⁾
ACE Empower Project - Refinancing LIIF Loan and Bothman Note; financing new construction and improvements to site	Ground Lease from ARUESD, ~1.92 acres	Existing improvements partially financed with the LIIF Loan and Bothman Note: 18 modular classrooms and an administrative building (approx. 19,680 sq. ft.) New improvements: Multi-Purpose Building (approximately 2,400 sq. ft.) and shade structure (approx. 1,200 sq. ft.)	Existing improvements: Spring 2012 New improvements: Estimated April 2017	FY 2008-09	351 students in school year 2015-16
ACE FM Project - Financing new construction and improvements to site	Ground Lease from Franklin McKinley SD, ~1.98 acres	11 new modular classrooms (approx. 10,560 sq. ft.), a modular administration building (approx. 1,920 sq. ft.), and a restroom building (approx. 480 sq. ft.)	Estimated August 2017	FY 2014-15	224 students in school year 2015-16

II. ACE Charter School / ACE Charter School Foundation, Inc.

ACE Charter School is a charter school management organization that operates charter schools in California. ACE Charter currently holds charters and operates four middle schools and one high school serving over 1,000 students in San Jose, California. ACE Charter operates as a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Code. ACE Charter is the holder of all school charters and the recipient of all state and federal revenue related to the operation of its affiliated charter schools.

ACE Charter School Foundation, Inc., the Borrower, is a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Borrower is organized and operated exclusively for charitable purposes and was formed by ACE Charter School in 2010 as a support organization for ACE Charter.

III. Financial Structure

The Bonds are expected to be issued in two series: (1) Series A (Tax-Exempt) will be approximately \$11,690,000 and (2) Series B (Taxable) will be approximately \$720,000. The Bonds will have a final maturity of June 1, 2051.

IV. Security and Source of Payment

The Bonds will be payable out of Payments under the Indenture, consisting primarily of Loan Repayments under the Loan Agreement. The obligations of the Borrower under the Loan Agreement are secured by: (i) the rent payments received under the Lease, (ii) real property described in the Deed of Trust on the Facility and (iii) the Reserve Account. The Reserve Account will be funded initially by proceeds of the Bonds.

As additional security for the Bonds, in connection with the issuance of the Bonds, ACE Charter Schools will provide instructions to the State Controller's Office to make an apportionment to the

Trustee with respect to each School in amounts and on dates provided in a written notice sufficient in the aggregate to repay the Bonds and pay necessary and incidental costs. Funds received by the Trustee pursuant to such Intercept will be held in trust and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture, including if necessary, the payment of debt service on the Bonds. Under the laws of the State of California, no party, including ACE Charter Schools, the Borrower or any of their respective creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the State Controller pursuant to the Intercept.

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:	Series 2016A (Tax-Exempt)	Series 2016B (Taxable)	Total
Bond Proceeds:			
Par Amount	\$11,690,000.00	\$720,000.00	\$12,410,000.00
Grant Proceeds:			
Grant Funds	\$900,000.00	\$0.00	\$900,000.00
Total Sources	\$12,590,000.00	\$720,000.00	\$13,310,000.00
Uses:			Total
Project Fund Deposits:			
ACE FM - New Money	\$5,381,397.73	\$0.00	\$5,381,397.73
ACE Empower - New Money	\$1,707,256.00	\$0.00	\$1,707,256.00
ACE Empower - LIIF Loan Refinance	\$3,487,000.00	\$0.00	\$3,487,000.00
ACE Empower - Bothman Note Refinance	\$352,000.00	\$0.00	\$352,000.00
	\$10,927,653.73	\$0.00	\$10,927,653.73
Other Fund Deposits:			
Debt Service Reserve Fund	\$902,230.62	\$55,569.38	\$957,800.00
Capitalized Interest	\$528,593.35	\$32,556.65	\$561,150.00
Delivery Date Expenses:			
Cost of Issuance	\$146,117.41	\$402,159.09	\$548,276.50
Underwriter's Discount	\$82,682.60	\$227,567.40	\$310,250.00
	\$228,800.01	\$629,726.49	\$858,526.50
Other Uses of Funds:			
Contingency	\$2,722.29	\$2,147.48	\$4,869.77
Total Uses	\$12,590,000.00	\$720,000.00	\$13,310,000.00

<u>Cost of Issuance:</u>	<u>Budgeted Amount</u>
Issuer Fee	\$26,066.50
Issuer's Counsel Fee	\$8,000.00
Agent-for-Sale Fee	\$6,000.00
Financial Advisor Fee	\$45,000.00
Financial/Facilities Consultant	\$110,000.00
Bond Counsel Fee	\$100,000.00
Borrower's Counsel Fee	\$70,000.00
Disclosure/Underwriter's Counsel	\$95,000.00
Trustee Fee	\$15,000.00
Trustee's Counsel Fee	\$5,000.00
Financial Printer Fee	\$7,500.00
CDLAC Fee**	\$0.00
Miscellaneous COI (<i>specify</i>)	
Contingency	\$25,000.00
Title Insurance	\$27,710.00
Appraisal	\$16,000.00
Total COI	\$556,276.50

VI. Borrower Financial Data

Exhibit A and B contains financial and operational information for ACE Charter School Foundation, LLC.

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 bonds are not rated. The Authority's sales restrictions can be viewed at:

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

1. Bonds will be in higher minimum denominations of \$250,000
2. Bonds will be privately placed or publicly offered initially to QIBs and AIs
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. 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 16-21 authorizing the Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$14,000,000 to Finance and Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and Equipping of Educational Facilities Located in Santa Clara County, California.

Exhibit A Financial and Operational Information

ACE Empower + ACE Franklin-McKinley

(\$000s)	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
Enrollment	795	855	870	870	870	870	870	870
Revenues								
Total General Purpose State Aid	5,706.4	6,250.2	6,465.0	6,713.8	6,889.1	7,167.0	7,453.9	7,750.2
In Lieu Of Property Tax	1,417.4	1,535.8	1,565.4	1,565.4	1,659.2	1,659.2	1,659.2	1,659.2
Total Federal Revenue	409.5	444.6	463.5	475.0	486.9	499.0	511.5	524.3
Total Other State & Local Revenue (incl. SB740)	1,343.3	1,419.2	1,447.2	1,456.8	1,466.3	1,476.0	1,485.9	1,496.1
Total Food Service/Student Activities	276.4	281.5	286.8	292.2	297.7	303.3	309.0	314.8
Total Lottery	125.2	139.9	154.9	162.3	167.1	172.2	177.3	182.6
Fundraising & Development	150.0	75.0	50.0	-	-	-	-	-
Total Revenues	9,428.1	10,146.3	10,432.7	10,665.4	10,966.3	11,276.7	11,596.9	11,927.2
Expenses								
Total Certificated Personnel Salaries	2,908.0	3,062.4	3,161.2	3,263.1	3,368.3	3,476.9	3,589.1	3,704.9
Total Classified Personnel Salaries	953.1	1,076.0	1,108.3	1,141.6	1,175.8	1,211.1	1,247.4	1,284.8
Total Employee Benefits	1,141.8	1,332.8	1,483.8	1,554.9	1,653.6	1,735.5	1,823.3	1,917.4
Total Books & Supplies	857.5	855.3	862.3	854.7	864.3	869.0	867.9	874.0
Total Services & Other Operating Expenses	2,597.5	2,727.6	2,724.2	2,781.9	2,840.8	2,898.7	2,962.4	2,998.6
Depreciation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Interest - Revolver	1.5	1.5	1.6	0.5	0.5	0.5	0.5	0.5
Total Expenses	8,460.4	9,056.7	9,342.4	9,597.5	9,904.3	10,192.8	10,491.6	10,781.3
Net Income	\$ 967.8	\$ 1,089.6	\$ 1,090.3	\$ 1,067.9	\$ 1,062.0	\$ 1,083.9	\$ 1,105.2	\$ 1,145.9
Add Back: Depreciation	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Add Back: Rent for Ground Lease	221.8	221.8	221.8	232.8	248.6	252.5	256.6	260.7
NOI Before Rent	\$ 1,190.6	\$ 1,312.4	\$ 1,313.2	\$ 1,301.7	\$ 1,311.6	\$ 1,337.4	\$ 1,362.8	\$ 1,407.6

**Enrollment by Grade by School
2015-2016 through 2020-2021**

ACE Empower

Grade	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
5	62	75	76	80	80	85
6	88	118	118	118	118	122
7	78	129	112	130	112	131
8	121	78	129	112	130	112
Total	349	400	435	440	440	450

ACE Franklin-McKinley

Grade	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
5	46	55	65	66	65	65
6	56	78	113	129	114	125
7	74	76	106	119	137	108
8	31	74	76	106	119	137
Total	207	283	360	420	435	435