

\$8,500,000
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE REFUNDING BONDS
(VALUE SCHOOLS)
SERIES 2016
EXECUTIVE SUMMARY

RESOLUTION 16-26

Borrower: VSF School Facilities #1 LLC

Project User: Value Schools, a California nonprofit public benefit corporation, doing business as University Preparatory Value High School

Loan Amount: Not to exceed \$8,500,000

Expected Issuance: October 2016

Project: The proceeds of the Series 2016 Bonds will be used to (i) finance the acquisition, construction, expansion, remodeling, renovation, improvement, equipping and/or furnishing of the charter school educational facilities to be known as University Preparatory Value High School (the "Series 2016 Facilities"); (ii) fund a debt service reserve account and or a repair and replacement fund with respect to the Series 2016 Bonds; (iii) pay capitalized interest on the Series 2016 Bonds; and (iv) pay certain costs of issuance of the Series 2016 Bonds. The Series 2016 Facilities will be used by Value Schools for the operation of the Series 2016 Facilities.

Bond Type: Charter School Revenue Refunding Bonds (Taxable and Tax Exempt Series)

Project Locations: 1929 West Pico Blvd., Los Angeles, CA 90006

Counties Served: Los Angeles

District in which Project is Located: Los Angeles Unified School District

Charter Authorizer: Los Angeles Unified School District

Est. Annual Payment: \$423,000

Expected Rating: BBB-

Structure: Term Bond maturing in 2051 (Tax-Exempt) and 2024 (Taxable)

Sale Method: Publicly Offered
Underwriter: Piper Jaffray & Co.
Trustee: The Bank of New York Mellon Trust Company, N.A.
Bond Counsel: Orrick, Herrington & Sutcliffe LLP

I. Use of Bond Proceeds / Project Description

VSF School Facilities #1 LLC is requesting conduit bond financing, not to exceed \$8.5 million, for purposes of constructing and equipping of a charter school facility located at 1929 W. Pico Blvd. in Los Angeles, California. The structure is currently a vacant warehouse, which previously served the needs of Loomis Armed Transport Company. The approximate cost of the improvements and FF&E is approximately \$7,000,000. When fully enrolled, the facility will house University Preparatory Value High School and will accommodate up to 480 students in grades 9-12. Students currently attending University Preparatory Value High School currently attend a leased facility in the same general area where the proposed facility is to be located. The facility is and will continue to be owned by the current owner. The building and land are leased from the owner under the provisions of a 25-year lease with two 5-year extension options.

Site	Landlord	Location	Purpose	Amount
University Preparatory Value High School	Byzantine LLC	1929 W. Pico Boulevard, Los Angeles, CA 90006	Hard Costs	\$4,913,504
			Soft Costs	\$1,037,500
			Development Fee	\$300,144
			Project Contingency	\$51,875
Total Estimated Project Costs				\$6,303,023

II. VSF School Facilities #1 LLC / Value Schools

The borrower is VSF School Facilities #1 LLC, a California limited liability company, whose sole member is expected to be Value Schools Foundation, a California nonprofit public benefit corporation.

The Sole Member’s purposes include providing charter school facilities and operations and other support to charter schools, and to provide or assist in obtaining charter school financing, and related activities. Value Schools, also a California nonprofit public benefit corporation, operates the two charter schools, but is not a party to the bond transaction and has no liability or direct responsibility with respect thereto.

Value Schools was formed in July 2000 by Dr. Jerome Porath to establish and support high quality elementary and secondary charter schools for students who have historically been underserved by the public school system. After running a fee-based summer program and a

small free kindergarten, Value Schools opened Downtown Value in September 2002, serving 24 students in kindergarten and first grade, and has grown to its full capacity of 455 students as of the 2015-16 school year. Central City Value opened in September 2003 with 90 students and has grown to its full capacity of 483 students as of the 2015-16 school year. Everest Value opened in August 2014 and enrolls 206 k-8 students. University Prep opened in August 2015 with 111 students in 9th grade, and plans to expand to reach its enrollment capacity of 480 in the Series 2016 Facilities.

III. Financial Structure

The Authority will issue fixed rate tax-exempt and taxable bonds. The final maturity of the Series 2016 Bonds will be 30-35 years. The bond issue may include both serial and term bonds. The purpose of the taxable bonds is to finance expenditures which do not qualify for tax-exempt status.

It is anticipated that the Series 2016 Bonds will be rated investment grade (BBB- category) by Standard & Poor's. Regardless of whether the Series 2016 Bonds achieve an investment grade rating, sales restrictions will apply that are consistent with the bond issuance guidelines approved by the Authority board on August 10, 2016.

The Series 2016 Bonds will be dated the date of delivery, expected to be sometime in October 2016, and currently are expected to mature on July 1 of 2026, 2031, 2036 and 2051, with mandatory sinking fund payments prior to maturity. The Series 2016 Bonds are expected to bear interest payable semi-annually on July 1 and January 1 of each year, commencing January 1, 2017, until maturity or earlier redemption. Series 2016 Bonds transfers will conform to CSFA investor restrictions policies, based on the final rating of the Series 2016 Bonds.

IV. Security and Source of Payment

The 2016 Bonds are being issued as Additional Bonds to the California School Finance Authority School Facility Revenue Bonds (Value Schools), Series 2013 (the "2013 Bonds"). The 2013 Bonds were payable from amounts due under leases between the Borrower and Value Schools relating to the Central City Value School Facility and the Downtown Value School Facility. With the issuance of the 2016 Bonds, amounts due under the lease between the Borrower and Value Schools relating to the University Prep Value High School will be available to pay the Bonds (both the 2013 Bonds and 2016 Bonds).

The Central City Value Campus, the Downtown Value Campus, and the University Prep Value Campus will be subject to deeds of trust as security for the Series 2016 Bonds.

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	\$6,480,000.00	\$255,000.00	\$6,735,000.00
Premium	\$552,151.25	\$0.00	\$552,151.25
Total	\$7,032,151.25	\$255,000.00	\$7,287,151.25
Uses:			
Project Fund Deposits:			
Hard Costs	\$4,913,504.00	\$0.00	\$4,913,504.00
Soft Costs	\$1,037,500.00	\$0.00	\$1,037,500.00
Development Fee	\$300,144.00	\$0.00	\$300,144.00
Project Contingency	\$51,875.00	\$0.00	\$51,875.00
	\$6,303,023.00	\$0.00	\$6,303,023.00
Other Fund Deposits:			
Debt Service Reserve Fund	\$367,279.86	\$14,453.14	\$381,733.00
Capitalized Interest	\$230,836.17	\$9,083.83	\$239,920.00
Delivery Date Expenses:			
Cost of Issuance	\$24,117.73	\$225,882.27	\$250,000.00
Underwriter's Discount	\$105,482.27	\$3,825.00	\$109,307.27
	\$129,600.00	\$229,707.27	\$359,307.27
Other Uses of Funds:			
Contingency	\$1,412.22	\$1,755.76	\$3,167.98
Total	\$7,032,151.25	\$255,000.00	\$7,287,151.25

Cost of Issuance	
Bond Counsel	\$75,000.00
Underwriter Counsel	\$60,000.00
Borrower Counsel	\$60,000.00
Rating Agency	\$26,000.00
Title	\$0.00
Trustee	\$7,000.00
CSFA Issuance Fee	\$6,232.13
CSFA Agent for Sale Fee	\$6,000.00
CSFA Admin Fee	\$923.59
CSFA AG Counsel Fee	\$7,000.00
Miscellaneous COI (specify)	\$1,844.28
Total COI	\$250,000.00

VI. Borrower Financial Data

Exhibit A and B contains financial and operational information for Value Schools.

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, has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

VIII. Bond Issuance Guidelines

The following sales restrictions will apply to the financing given that the Series 2016 Bonds are expected to receive a BB+ rating. If the Series 2016 Bonds are rated BBB- or better then the appropriate sales restrictions will be applied pursuant to the Authority's Resolution 16-20. The Authority's sales restrictions can be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Series 2016 Bonds will be in minimum denominations of \$100,000
2. Series 2016 Bonds will be privately placed or publicly offered initially to QIBs and AIs
3. Initial Series 2016 Bonds purchasers will be required to execute an Investor Letter
4. Subsequent transfers of Series 2016 Bonds will be limited to QIBs and AIs
5. Sales restrictions will be conspicuously noted on Series 2016 Bonds and described in detail in offering materials, if any, as well as in the Series 2016 Bond 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:
 - Traveling Investor Letter; or
 - Higher minimum denominations of \$250,000; or
 - Physical Delivery; or
 - Limited initial sale to QIBs, with subsequent transfers limited to QIBs as well; or
 - Other investor protection measures
7. Series 2016 Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code

IX. Staff Recommendation

Staff recommends the board members adopt Resolution Number 16-26 authorizing issuance of bonds in an amount not to exceed \$8,500,000 for Value Schools and its affiliate, VSF School Facilities #1 LLC, subject to final financing terms acceptable to CSFA.

Exhibit A
Consolidated Financial Projects (FY 2017 – FY 2021)

Consolidated Financial Projections
Downtown Value, Central City and University Prep

	FY2017	FY2018	FY2019	FY2020	FY2021
Revenues:					
General Block Grant	11,559,617	13,480,967	15,115,860	16,031,927	16,031,927
Federal Revenue	1,287,977	1,454,614	1,637,985	1,735,412	1,774,965
Other State Revenues	2,351,415	2,133,777	2,159,034	2,254,668	2,282,393
Local Revenues	50,995	52,316	53,727	54,362	54,749
Fundraising and Grants	70,207	79,487	88,802	92,469	94,318
Total Revenues	15,320,211	17,201,161	19,055,409	20,168,838	20,238,353
Expenses:					
Compensation and Benefits	8,040,306	9,238,340	10,118,522	10,547,643	10,828,271
Books and Supplies	1,593,074	1,896,313	2,038,771	2,014,633	2,039,925
Services and Other Operating Expenditures	5,077,290	5,614,477	6,166,051	6,384,651	5,967,850
Capital Outlay	525,000	-	-	-	-
Total Expenses	15,235,670	16,749,130	18,323,344	18,946,926	18,836,047
Operating Income	84,540	452,031	732,065	1,221,912	1,402,306
Debt Service Coverage Ratio:					
Operating Income	84,540	452,031	732,065	1,221,912	1,402,306
Plus: Rent Expense	1,474,074	1,268,812	1,275,184	1,341,696	1,341,696
Available for Debt Service	1,558,614	1,720,843	2,007,249	2,563,608	2,744,002
Series 2013 Debt Service	983,768	986,393	988,428	984,873	986,023
Series 2016 Debt Service	-	337,388	377,388	385,288	382,663
Total Debt Service	983,768	1,323,780	1,365,815	1,370,160	1,368,685
Debt Service Ratio	1.58	1.30	1.47	1.87	2.00

Exhibit B
Audited Financial Information (3-Years)

	Audited 2014	Audited 2015	Unaudited 2016
Cash	692,759	1,563,073	3,781,581
Days Cash on Hand	27	48	82
Revenues:			
State	7,965,984	10,690,796	14,768,679
Federal	1,099,402	1,433,153	1,766,479
Local	317,725	460,322	2,808,292
	9,383,111	12,584,271	19,343,450
Total Expenses:	9,262,558	11,955,151	16,765,009
Change in Net Assets from Operations	120,553	629,120	2,578,441
Debt Service Coverage:			
Change in Net Assets from Operations	120,553	629,120	2,578,441
Plus: Depreciation	14,906	-	-
Plus: Interest	782,945	872,633	865,848
Available for Debt Service	918,404	1,501,753	3,444,289
Series 2013 MADS	988,247	988,247	988,247
Series 2013 MADS Coverage	0.93	1.52	3.49
Series 2013 + 2016 Proforma MADS	1,370,000	1,370,000	1,370,000
Pro forma MADS Coverage	0.67	1.10	2.51