

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

EXECUTIVE SUMMARY
RESOLUTION 16-28

Borrower:	Cunningham & Morris, LLC (the “Borrower”)
Project User:	TEACH, Inc.
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 Los Angeles County.
Bond Type:	Charter School Revenue Bonds (Taxable and Tax Exempt Series)
Project Location:	See “Project Information” section
Counties Served:	Los Angeles County
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Est. Annual Payment:	\$805,425
Anticipated Rating:	Not Applicable; the bonds are not rated.
Structure:	\$11,450,000 (Tax-Exempt) and \$780,000 (Taxable)
Sale Method:	Public Limited Offering
Underwriter:	Stifel, Nicolaus & Company, Inc.
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Trustee:	Wilmington Trust, National Association

I. Use of Bond Proceeds / Project Information

The proceeds of the Bonds will be used to (a) finance the acquisition, construction, renovation, improvement, furnishing and equipping of certain public charter school facilities located at 10000 and 10045 South Western Avenue in Los Angeles, California; (b) fund a debt service reserve account with respect to the Bonds; (c) pay capitalized interest on the Bonds; and (d) pay certain

expenses incurred in connection with the issuance of the Bonds. The Facilities will be used by TEACH Public Schools for the operation of TEACH Academy of Technologies.

II. Cunningham & Morris, LLC/TEACH, Inc.

TEACH, Inc. ("TEACH") is a charter school management organization that operates charter schools in California. TEACH currently operates two charter schools, expected to serve 575 students in Los Angeles County, California. TEACH projects serving 950 students by 2019-20. TEACH operates as a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Code. TEACH has been authorized its own 5-year charter by the Los Angeles Unified School District.

The Borrower, Cunningham & Morris, LLC (the "Borrower") will be a California limited liability corporation, anticipated to be formed by TEACH as a holding company for real properties of certain schools that have been or will be formed by TEACH. The sole member will be TEACH, 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 "Code"). The Borrower will be formed by TEACH as a support organization for the purpose of owning the Facility and is not expected to have any other assets or revenue available to it to make payments due under the Loan Agreement. Therefore, no financial information with respect to the Borrower has been provided in the offering statement.

III. Financial Structure

The Bonds are expected to be issued in two series: (1) Series A (Tax-Exempt) will be approximately \$11,450,000 and (2) Series B (Taxable) will be approximately \$780,000. The Bonds will have a final maturity of June 1, 2052.

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, CLIC 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 TEACH, 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	\$11,450,000.00	\$780,000.00	\$12,230,000.00
Uses:			Total
Project Fund Deposits:			
Lease Buyout/Purchase Option	\$10,219,672.00		\$10,219,672.00
Tenant Improvements	\$250,000.00		\$250,000.00
Reimbursement of Prurchase of Portables		\$400,000.00	\$400,000.00
	\$10,469,672.00	\$400,000.00	\$10,869,672.00
Other Fund Deposits:			
Debt Service Reserve Fund	\$754,056.93	\$51,368.07	\$805,425.00
Delivery Date Expenses:			
Cost of Issuance	\$118,032.20	\$170,762.30	\$288,794.50
Underwriter's Discount	\$105,967.80	\$153,308.20	\$259,276.00
	\$224,000.00	\$324,070.50	\$548,070.50
Other Uses of Funds:			
Contingency	\$2,271.07	\$4,561.43	\$6,832.50
Total	\$11,450,000.00	\$780,000.00	\$12,230,000.00

<u>Cost of Issuance:</u>	<u>Budgeted Amount</u>
Issuer Fee	\$25,949.50
Agent-for-Sale Fee	\$6,000.00
Financial Advisor Fee	\$55,000.00
Bond Counsel Fee	\$70,000.00
Borrower's Counsel Fee	\$35,000.00
Trustee Fee	\$8,500.00
Trustee's Counsel Fee	\$1,000.00
Ratings Agency - Moody's	\$0.00
Ratings Agency - Fitch	\$0.00
Rating Agency - S&P	\$0.00
Financial Printer Fee	\$5,000.00
CDLAC Fee**	\$0.00
Miscellaneous COI (specify)	
Contingency	\$39,000.00
Financial Consultant Fee (Back-Office Provider)	\$18,345.00
Appraisal	\$7,500.00
Title Fees & Charges	\$17,500.00
Total COI	\$288,794.50

VI. Borrower Financial Data

Exhibit A contains financial and operational information for TEACH.

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 minimum denominations of \$100,000;
2. Bonds will be privately placed or publicly offered initially to QIBs and AIs;
3. Initial bond purchasers will be required to execute an Investor Letter;
4. Subsequent transfers of bonds will be 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. One or more of the following will be required depending on the transaction, as requested by the financing team and approved by the Authority:
 - i. Traveling Investor Letter; or
 - ii. Higher minimum denominations of \$250,000; or
 - iii. Physical Delivery; or
 - iv. Limited initial sale to QIBs, with subsequent transfers limited to QIBs as well; or
 - v. Other investor protection measures
7. 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 16-28 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 Los Angeles County, California for Cunningham & Morris, LLC.

Exhibit A
Financial and Operational Information

STATEMENT OF ACTIVITIES
Fiscal Years 2014-15 through 2015-16
TEACH Academy

School (Fiscal) Year	<u>2014-15</u> <u>(Audited)</u>	<u>2015-16</u> <u>(Unaudited Actuals)</u>
UNRESTRICTED REVENUES		
State revenue:		
State aid	\$1,358,308	
Other state revenue	323,485	
Federal revenues		
Grants and entitlements	332,149	
Local revenues		
In-lieu property tax revenue	379,860	
Contributions	145	
Interest income	135	
Other revenue	<u>13,440</u>	
Total unrestricted revenues	2,407,522	
Net assets released from restriction	<u>55,064</u>	
Total unrestricted revenues and net assets released from restriction	2,462,586	
EXPENSES		
Program services	1,296,882	
Management and general	595,589	
Fundraising	<u>1,448</u>	
Total expenses	<u>1,893,919</u>	
Change in unrestricted net assets	568,667	
TEMPORARILY RESTRICTED		
Net assets released from restriction	<u>(55,064)</u>	
Change in temporarily restricted net assets	<u>(55,064)</u>	
Total change in net assets	513,603	
Net assets, beginning of year	352,050	
Adjustment for restatement ⁽¹⁾	<u>49,865</u>	
Restated net assets, beginning of year	<u>401,915</u>	
Net assets, end of year	<u>\$915,518</u>	

⁽¹⁾ Beginning net assets were restated due to an understatement of federal revenue in fiscal year 2013-14.
Source: TEACH; Audited Financial Reports for Fiscal Year 2014-15; Unaudited Actual Financials for Fiscal Year 2015-16.

PROJECTED ENROLLMENT / CASHFLOWS

Projected Net Income & Base Rent Coverage Ratio

	2016-17	2017-18	2018-19	2019-20	2020-21
ENROLLMENT					
Enrollment	300	350	400	450	450
ADA	285.0	332.5	380.0	427.5	427.5
REVENUE					
State Aid - Revenue Limit	\$ 2,629,907	\$ 3,234,494	\$ 3,760,442	\$ 4,397,860	\$ 4,397,860
Federal Revenue	370,221	431,925	493,628	555,332	555,332
Other State Revenue	337,083	376,474	416,066	455,657	456,322
School Facilities (SB740)	213,750	249,375	285,000	320,625	320,625
Other Local Revenue	370,938	3,325	3,800	4,275	4,275
Lease and Rental Income	65,677	-	-	-	-
Total Revenues	\$ 3,987,576	\$ 4,295,593	\$ 4,958,936	\$ 5,733,749	\$ 5,734,414
EXPENSES					
Certificated Salaries	\$ 943,886	\$ 1,097,673	\$ 1,257,235	\$ 1,422,739	\$ 1,451,194
Classified Salaries	312,171	371,483	433,044	496,918	506,856
Benefits	286,996	355,196	431,100	515,092	539,470
Books and Supplies	335,994	399,833	466,091	534,839	545,536
Subagreement Services	215,000	238,850	263,568	289,179	294,963
Professional/Consulting Services	223,370	234,207	244,372	255,765	260,001
CMO Management Fees	279,130	300,692	347,125	401,362	401,409
Professional Management Fees	67,789	73,025	84,302	97,474	97,485
Facilities, Repairs and Other Leases	77,500	79,050	80,631	82,244	83,888
Rent (RHC)	618,491	569,931	604,931	748,138	708,913
Operations and Housekeeping	141,600	144,432	147,321	150,267	153,272
Depreciation	29,628	30,221	30,825	31,441	32,070
Total Expenses	\$ 3,531,555	\$ 3,894,593	\$ 4,390,545	\$ 5,025,458	\$ 5,075,057
Net Income	\$ 456,021	\$ 401,000	\$ 568,391	\$ 708,291	\$ 659,357
Add Back: Depreciation	29,628	30,221	30,825	31,441	32,070
Add Back: Rent (RHC)	618,491	569,931	604,931	748,138	708,913
Add Back: CMO Management Fee	279,130	300,692	347,125	401,362	401,409
(A) NOI Available for Base Rent	\$ 1,383,270	\$ 1,301,844	\$ 1,551,272	\$ 1,889,232	\$ 1,801,749
Rent (RHC)*	218,634	-	-	-	-
Bond Debt Service	369,388	601,719	641,719	794,669	744,675
(B) Base Rent	\$ 588,022	\$ 601,719	\$ 641,719	\$ 794,669	\$ 744,675
(A/B) Base Rent Coverage Ratio	2.35x	2.16x	2.42x	2.38x	2.42x

Projected Cash Position & Days Cash on Hand

	2016-17	2017-18	2018-19	2019-20	2020-21
(C) Ending Cash Balance	\$ 509,922	\$ 894,957	\$ 1,456,201	\$ 2,101,458	\$ 2,792,220
Total Expenses	\$ 3,531,555	\$ 3,894,593	\$ 4,390,545	\$ 5,025,458	\$ 5,075,057
Less: (Depreciation)	(29,628)	(30,221)	(30,825)	(31,441)	(32,070)
Less: (Base Rent)	(588,022)	(601,719)	(641,719)	(794,669)	(744,675)
Add: Maximum Annual Base Rent	794,669	794,669	794,669	794,669	794,669
(D) Operating Expenses	\$ 3,708,573	\$ 4,057,322	\$ 4,512,670	\$ 4,994,017	\$ 5,092,981
(365*(C/D) Days Cash on Hand	50 days	81 days	118 days	154 days	200 days