

\$12,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(KEPLER CHARTER SCHOOL)
SERIES 2017A (TAX-EXEMPT) and SERIES 2017B (TAXABLE)

EXECUTIVE SUMMARY
RESOLUTION 17-01

Borrower:	Johannes, LLC, a California limited liability company (the "Borrower")
Project User:	Kepler Education, Inc.
Loan Amount:	Not to exceed \$12,000,000*
Expected Issuance:	March 2017
Project:	The proceeds of the bonds will be used to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Fresno County, California.
Bond Type:	Charter School Revenue Bonds (Taxable and Tax Exempt Series)
Project Location:	See "Project Information" section
Counties Served:	Fresno County
District in which Project is Located:	Fresno Unified School District
Charter Authorizer:	Fresno Unified School District
Est. Annual Payment:	\$720,000
Anticipated Rating:	Non-Rated
Structure:	\$9,805,000 (Tax-Exempt), \$250,000 (Taxable)
Sale Method:	Public Offering
Underwriter:	BB&T Capital Markets, a Division of BB&T Securities, LLC
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 (i) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of the charter school

educational facilities to be known as Kepler Neighborhood School, located on Broadway Street (or Broadway Plaza), Fresno, California 93721, APN's 466-202-19, 466-202-20 and 466-205-29 (portion) (the "Project"), (ii) pay certain expenses incurred in connection with the issuance of the Bonds, (iii) pay capitalized interest on the Bonds, and (iv) fund a debt service reserve fund and a repair and replacement fund with respect to the Bonds. The Project will be owned by the Borrower and operated as a public charter school by Kepler Education, Inc., a California nonprofit public benefit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Lessee"). The Project will be leased by the Borrower to the Lessee, pursuant to the Lease (as defined herein) for use and occupancy by the Lessee in order to operate the Kepler Neighborhood School (the "School").

Site	Landlord	Location	Purpose	Amount
New Development (Build to Suit)	Johannes, LLC	Broadway Street (or Broadway Plaza), Fresno, California 93721, APN's 466-202-19, 466-202-20 and 466-205-29	Acquisition	\$8,820,503
Project Reimbursement Costs				\$35,000
Total Estimated Project Costs				\$8,855,503

II. Johannes, LLC /Kepler Education, Inc./Kepler Neighborhood School

Johannes, LLC/Kepler Education, Inc.

The Borrower is a California limited liability company, whose sole member is Johannes Property Corporation, a California nonprofit public benefit corporation. The Lessee was formed in 2012 to open and operate Kepler Neighborhood School, a school organized under the Charter School Law, located in the City of Fresno, California, and serving students in kindergarten through 8th grade.

Kepler Neighborhood School

In September 2012, the Board of Education of the Fresno Unified School District approved the School's petition to establish a charter school named Kepler Neighborhood School. The School is authorized to operate a public school serving kindergarten through eighth grade under the California Education Code.

The School operates under the charter authorized in September 2012 by the Fresno Unified School District. The current charter is scheduled to expire on June 30, 2017. In March 2016, the District approved an amendment to the School's charter with respect to student admissions.

In the 2016-17 school year, the School's total enrollment is estimated to be 381, which is a 17% increase over its 2015-16 school year total enrollment of 317. The Lessee has retained approximately 96% of its total students at the beginning of the 2016-17 school year. The Lessee has a waitlist of 147 applicants for Kepler Neighborhood School.

The School's educational program is based on, among other things, the instructional needs of its target student profile. The School estimates that, during fiscal year 2016-17, approximately 69% of its students qualify for a free or reduced price meal, approximately 55% of its students qualify as English Language Learners and approximately 4% of its students qualify as Foster Youth.

III. Financial Structure

The Bonds are expected to be issued in two series: (1) Series A (Tax-Exempt) will be issued in the approximate aggregate principal amount of \$9,805,000 and (2) Series B (Taxable) will be issued in the approximate aggregate principal amount of \$250,000. The Bonds will have a final maturity of March 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 (and potentially additional leases in the future due to an obligated group structure), (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, the Lessee will provide instructions to the State Controller’s Office to make an apportionment to the Trustee with respect to the School in the amounts and on the 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 the Lessee, 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 estimated 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 the board packets are distributed and the time the board meets – members will be provided updated figures should they change before the board meeting date.

Sources:		
Bond Proceeds:		
	Par Amount	\$10,055,000.00
	OID/OIP	-\$73,604.70
TOTAL		\$9,981,395.30
Uses:		
Project Fund Deposits:		
	Purchase Option	\$8,600,000.00
	Adjusted Price	\$170,503.00
	Developer Fee	\$50,000.00
	Reimbursement Costs	\$30,000.00
Other Fund Deposits:		
	Debt Service Reserve Fund	\$720,206.26
Delivery Date Expenses:		
	Cost of Issuance	\$200,527.50*
	Underwriter's Discount	\$201,100.00
Other Uses of Funds:		
	Additional Proceeds	\$4,058.54
TOTAL		\$9,981,395.30

Cost of Issuance

COST OF ISSUANCE

California School Finance Authority
Education Revenue Bonds
Kepler Neighborhood School Project
Series 2017A&B
PRELIMINARY

Cost of Issuance	\$/1000	Amount
Issuing Authority Expense	1.49453	15,027.50
Bond & Disclosure Counsel	9.94530	100,000.00
Underwriter's Counsel	2.48633	25,000.00
Issuing Authority Application	0.14918	1,500.00
Title Fee	1.98906	20,000.00
Land Survey	0.49727	5,000.00
Environmental Report	0.49727	5,000.00
Appraisal	0.49727	5,000.00
Trustee	0.49727	5,000.00
Printing	0.39781	4,000.00
Contingency	1.49180	15,000.00
	19.94306	200,527.50

VI. Borrower Financial Data

Pursuant to Section 17183.5 of the CSFA Act, financing through the Authority is to be provided only to projects demonstrated by the participating party to be financially feasible. In demonstration feasibility, the participating party may take into account all of its funds, and may base future projections upon historical experience or reasonable expectations, or a combination thereof. Nothing in Section 17183.5 shall be construed to imply that any project is required to produce revenue in order to be financed under this chapter. Pursuant to this provision, Exhibit A contains financial and operational information for Kepler Neighborhood School.

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 will be non-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:
 - 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

IX. Staff Recommendation

Staff recommends CSFA approve Resolution Number 17-01 authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$12,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and/or Equipping of Educational Facilities Located in Fresno County, California for use by Johannes, LLC and Kepler Education, Inc.

Exhibit A

Financial and Operational Information 5-Year Projected Financials

Kepler Neighborhood School

Multiyear Budget Summary

As of 12/31/16

	2016/17	2017/18	2018/19	2019/20	2020/21
	Current Forecast	Preliminary Budget	Preliminary Budget	Preliminary Budget	Preliminary Budget
SUMMARY					
Revenue					
LCFF Entitlement	3,028,439	3,735,945	3,800,371	3,911,676	3,950,931
Federal Revenue	162,398	176,757	203,848	216,424	235,655
Other State Revenues	424,394	428,397	435,285	438,331	438,992
Local Revenues	39,151	42,086	43,348	44,649	45,988
Fundraising and Grants	28,325	29,175	30,050	30,951	31,880
Total Revenue	3,682,707	4,412,360	4,512,902	4,642,031	4,703,446
Expenses					
Compensation and Benefits	1,988,299	2,263,113	2,354,702	2,471,567	2,590,972
Books and Supplies	280,398	244,374	187,636	189,585	191,593
Services and Other Operating Expenditures	1,014,059	1,378,024	1,379,225	1,482,439	1,501,596
Depreciation	12,572	1,667	3,000	3,000	3,000
Total Expenses	3,295,329	3,887,179	3,924,563	4,146,590	4,287,161
Operating Income	387,378	525,181	588,339	495,440	416,285
Fund Balance					
Beginning Balance (Unaudited)	808,078	1,195,456	1,720,637	2,308,976	2,804,416
Audit Adjustment	-	-	-	-	-
Beginning Balance (Audited)	808,078	1,195,456	1,720,637	2,308,976	2,804,416
Operating Income	387,378	525,181	588,339	495,440	416,285
Ending Fund Balance (including Depreciation)	1,195,456	1,720,637	2,308,976	2,804,416	3,220,701
Ending Fund Balance as a % of Expenses	36%	44%	59%	68%	75%
Capital Outlay	90,000	-	-	-	-

5-Year Projected Coverage Ratios

Kepler Neighborhood School

Projected Financial Ratios

	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Annual Debt Service Coverage	2.38x	1.78x	1.91x	1.69x	1.58x
Days Cash on Hand	78	101	172	208	237

Enrollment by Grade Level Fiscal Years 2016-17 through 2020-21

Kepler Neighborhood School
Multiyear Budget Summary
As of 8/31/16

	2016/17	2016/17	2017/18	2018/19	2019/20	2020/21
Detail	Approved Budget	Current Forecast	Preliminary Budget	Preliminary Budget	Preliminary Budget	Preliminary Budget
Enrollment Breakdown						
K	44	42	74	74	74	74
1	44	44	48	48	48	48
2	44	44	48	48	48	48
3	44	44	48	48	48	48
4	44	44	48	48	48	48
5	44	44	48	48	48	48
6	44	44	48	48	48	48
7	44	44	48	48	48	48
8	36	30	44	48	48	48
Enrollment Summary	-	-	-	-	-	-
K-3	176	174	218	218	218	218
4-6	132	132	144	144	144	144
7-8	80	74	92	96	96	96
9-12	-	-	-	-	-	-
Total Enrolled	388	380	454	458	458	458
ADA %						
K-3	94%	94%	94%	94%	94%	94%
4-6	95%	95%	95%	95%	95%	95%
7-8	95%	95%	95%	95%	95%	95%
9-12	97%	97%	97%	97%	97%	97%
Average	94%	94%	94%	94%	94%	94%
ADA						
K-3	164.6	162.7	203.8	203.8	203.8	203.8
4-6	125.4	125.4	136.8	136.8	136.8	136.8
7-8	76.0	70.3	87.4	91.2	91.2	91.2
9-12	0.0	0.0	0.0	0.0	0.0	0.0
Total ADA	366.0	358.4	428.0	431.8	431.8	431.8
Demographic information						
Prior Year						