

\$25,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(MAGNOLIA PUBLIC SCHOOLS – OBLIGATED GROUP) DRAW DOWN
SERIES 2017A (TAX-EXEMPT) AND SERIES 2017B (TAXABLE)

EXECUTIVE SUMMARY
RESOLUTION 17-10

Borrower/Owner:	Magnolia Properties Management, Inc.
Project Users	Magnolia Educational and Research Foundation, for the benefit of Magnolia Science Academy-1, Magnolia Science Academy-Santa Ana, and Magnolia Science Academy-San Diego
Loan Amount:	Not to exceed \$25,000,000
Expected Issuance:	May 2017
Project:	The proceeds of the bonds will be used to Finance and Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing and /or Equipping of Educational Facilities Located in Los Angeles County, Orange County, and San Diego County
Bond Type:	Charter School Revenue Bonds
Project Location:	18214, 18228, and 18238 Sherman Way, Reseda, California 91335; 2840 W 1st Street, Santa Ana, California 92703; and 6365 Lake Atlin Avenue, San Diego, California 92119 and 6525 Estrella Avenue, San Diego, California 92120
County:	Los Angeles, Orange, and San Diego
District in which Project is Located:	Los Angeles Unified School District, Santa Ana Unified School District, and San Diego Unified School District
Charter Authorizer:	Los Angeles Unified School District, State Board of Education, and San Diego Unified School District
Est. Annual Payment:	Approximately \$1,770,938
Expected Rating:	Not Applicable
Structure:	Term Bonds expected to have a final maturity of 2044
Sale Method:	Limited Public Offering
Underwriter:	D.A. Davidson & Co.
Trustee	UMB Bank, National Association
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP

*Not to exceed amount.

I. Use of Bond Proceeds/Project Information

The Applicant is requesting the issuance of tax-exempt and taxable bonds, in an amount not to exceed \$25 million, to finance and refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of the charter school educational facilities known as Magnolia Science Academy 1, Magnolia Science Academy – Santa Ana, and Magnolia Science Academy – San Diego. Furthermore, proceeds from the bonds will also be used to pay certain expenses incurred in connection with the issuance of the bonds and fund a debt service reserve fund, capitalized interest and/or related working capital with respect to the bonds.

The Project will be owned by Magnolia Educational and Research Foundation (“MERF”), a California nonprofit public benefit corporation and operator of public charter schools, or by one or more limited liability companies, each of whose sole member is the Borrower, and operated as public charter schools by MERF. After completion of the Project, Magnolia Science Academy–1 is expected to accommodate approximately 900 students in grades 6-12, Magnolia Science Academy–Santa Ana is expected to accommodate approximately 900 students in grades K-12, and Magnolia Science Academy–San Diego is expected to accommodate approximately 470 students in grades 6-8.

Site	Landlord	Location	Purpose	Amount
Magnolia Science Academy - 1	N/A	18214,18228, and 18238 Sherman Way, Reseda, California 91335	New Construction	\$7,469,104
Magnolia Science Academy - 1	N/A	18214,18228, and 18238 Sherman Way, Reseda, California 91335	Refinance an Outstanding Loan	\$2,800,000
Magnolia Science Academy - Santa Ana	Santa Ana USD	2840 W 1st Street, Santa Ana, California 92703	New Construction	\$3,685,001
Magnolia Science Academy - San Diego	San Diego USD	6365 Lake Atlin Avenue, San Diego, California 92119 and 6525 Estrella Avenue, San Diego, California 92120	New Construction	\$5,930,339
Total Estimated Project Costs				\$19,884,444

II. The Project User and Borrower

The Borrower: Magnolia Properties Management, Inc., a California nonprofit public benefit corporation formed to support MERF and to own the mortgaged properties, is applying to the California School Finance Authority for the issuance of conduit charter school revenue bonds.

The Project User: MERF, doing business as Magnolia Public Schools, is a nonprofit organization established in August 1997, headquartered in Los Angeles, California. MERF was granted tax-exempt status (501(c)(3)) by the IRS and the State of California. The vision of MERF is “inspiring students to choose career paths in science and technology.” In the fall of 2002, MERF established Magnolia Science Academy – 1 as its first charter school.

Throughout the years, MERF has established another eleven charter schools to provide innovative and high-quality education to the nearby community in Southern California. Currently, MERF plans to operate charter schools that have already been granted charters by the California Department of Education and local school districts throughout California. In 2009, MERF was approved by the California State Board of Education to start ten state-wide benefit charter school sites in California over the next six years. This is only the third time that a charter school operator has been granted such permission in California. The first two school sites operating under the statewide benefit charter opened in the City of Sacramento and

Orange County, respectively, in August 2009. Currently, MERF manages 10 charter schools, which serve approximately 3,859 students.

III. Financial Structure

The California School Finance Authority (Authority) has been asked to issue approximately \$21,865,000 in Charter School Revenue Bonds Draw Down Series 2017A and approximately \$575,000 Charter School Revenue Bonds Series 2017B (Taxable), (collectively, the “Series 2017 Bonds”).

The Series 2017 Bonds will bear interest payable semi-annually on January 1 and July 1 of each year, commencing July 1, 2017, until maturity or earlier redemption. The Series 2017 Bonds are expected to be callable on July 1, 2024 and have a final maturity date of July 1, 2044.

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 leases to MERF of the Reseda and San Diego portions of the Project (and potentially additional leases in the future due to an obligated group structure), (ii) loan payments received under a loan agreement for a loan made to MERF for the construction of the Santa Ana portion of the Project, (iii) real property described in the Deed of Trust on the Reseda portion of the Project and (iv) the Reserve Account. The Reserve Account will be funded initially by proceeds of the Bonds. In addition, the Borrower, as Obligated Group Representative, together with MPM Sherman Way LLC, a California limited liability company, MPM San Diego LLC, a California limited liability company, and MPM Santa Ana LLC, a California limited liability company, the sole member of each of which is the Borrower, are entering into a Master Indenture of Trust (the “Master Indenture”) pursuant to which the obligations of the Borrower will be secured.

As additional security for the Bonds, in connection with the issuance of the Bonds, MERF will provide instructions to the State Controller’s Office to make an apportionment to the Trustee with respect to the Schools occupying the Project 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 MERF, 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.

In connection with the issuance of the Bonds, the Borrower is also requesting certain amendments to an indenture and loan agreement, each dated as of June 1, 2014, in connection with the outstanding California School Finance Authority School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014A, originally issued in the aggregate principal amount of \$5,675,000 and School Facility Revenue Bonds (Magnolia Science Academy-1, Reseda Project) Series 2014B (Taxable), originally issued in the aggregate principal amount of \$345,000 (collectively, the “Series 2014 Bonds”), to permit the issuance of an obligation under the Master Indenture that will secure the Borrower’s repayment obligations under the loan agreement in connection with the Series 2014 Bonds and to appoint UMB Bank, National Association as successor trustee to The Bank of New York Mellon Trust Company, N.A. The Board will be asked to consider the aforementioned amendments as a separate item.

V. Preliminary Sources and Uses/Preliminary 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.

Preliminary Sources and Uses

Sources:	Series 2017A (Tax-Exempt)	Series 2017B (Taxable)	Total
Bond Proceeds:			
Par Amount	\$21,865,000.00	\$575,000.00	\$22,440,000.00
Uses:	Series 2017A (Tax-Exempt)	Series 2017B (Taxable)	Total
Project Fund Deposits:			
Loan Refinance	\$2,800,000.00		\$2,800,000.00
New Money	\$17,084,444.00		\$17,084,444.00
	\$19,884,444.00	\$0.00	\$19,884,444.00
Other Fund Deposits:			
Debt Service Reserve Fund	\$1,770,937.50		\$1,770,937.50
Delivery Date Expenses:			
Cost of Issuance	\$156,286.43	\$433,933.57	\$590,220.00
Underwriter's Discount	\$42,613.57	\$136,906.43	\$179,520.00
	\$198,900.00	\$570,840.00	\$769,740.00
Other Uses of Funds:			
Contingency	\$10,718.50	\$4,160.00	\$14,878.50
Total	\$21,865,000.00	\$575,000.00	\$22,440,000.00

Preliminary Cost of Issuance

Cost of Issuance	Budgeted Amount
Issuer Fee	\$31,220.00
Agent-for-Sale Fee	\$6,000.00
Financial Advisor Fee	\$55,000.00
Bond Counsel Fee	\$225,000.00
Borrower's Counsel Fee	\$80,000.00
Trustee Fee	\$5,000.00
Trustee's Counsel Fee	\$7,500.00
Bondholder's Counsel	\$65,000.00
Construction Monitoring Fee	\$65,000.00
Financial Printer Fee	\$2,500.00
Continuing Disclosure Review	\$2,500.00
Due Diligence Expenses	\$5,000.00
Contingency	\$39,878.50
Total COI	\$589,598.50

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 Magnolia Educational & Research Foundation.

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 may apply to the financing given that the bonds will be unrated and sold in a limited public offering. 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 described in detail in offering materials, if any, as well as in the bond documents;
6. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code

The financing team has requested an exception to CSFA's approved sales restrictions. Typically, with an unrated transaction, in addition to the above restrictions the financing team and borrower agree to either increase minimum denominations to \$250,000 or limit the transaction to QIBs. In this case, the financing team is requesting that the additional restriction not apply. The initial purchaser of the bonds is a registered investment advisor that invests on behalf of only high net worth individuals. Keeping the minimum denominations at \$100,000 and including accredited investors will allow the advisor to spread the bonds among a larger pool of its clients.

IX. Staff Recommendation

Staff recommends CSFA approve Resolution Number 17-10 Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$25,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Los Angeles County, Orange County, and San Diego County.

Exhibit A
Enrollment Projections, Budget Projections, and DS Coverage Ratios
(MERF Obligated Group)

Magnolia Obligated Group Projections					
	2016/17	2017/18	2018/19	2019/20	2020/21
Enrollment					
MSA 1	541	605	705	795	875
MSA SA	628	782	843	880	905
MSA SD	428	450	470	470	470
Total	1,597	1,837	2,018	2,145	2,250
Revenue					
LCFF Entitlement	13,858,344	16,344,234	19,061,402	21,377,515	23,616,324
Federal Revenue	1,626,014	1,574,428	1,752,646	1,892,514	2,009,137
Other State Revenues	2,180,754	2,142,588	2,286,199	2,459,184	2,610,662
Local Revenues	199,332	195,054	200,305	205,715	211,286
Total Revenue	17,864,444	20,256,304	23,300,553	25,934,928	28,447,409
Expenses					
Compensation and Benefits	9,792,386	10,559,926	11,967,362	13,369,767	14,525,887
Books and Supplies	1,657,218	1,589,367	1,522,983	1,628,387	1,741,483
Services and Other Operating Expenditures	6,227,223	7,825,319	8,510,598	9,056,996	9,483,740
Total Expenses	17,676,828	19,974,612	22,000,943	24,055,149	25,751,110
Net Cash Flow	187,617	281,692	1,299,610	1,879,779	2,696,299
Add Back: Rent (net of SA ground lease) & Prop 1D Loan	804,180	2,019,165	2,022,865	2,022,265	2,021,752
Revenues Available for Debt Service	991,797	2,300,857	3,322,475	3,902,043	4,718,051
2014 DS	445,000	445,961	449,661	449,661	449,061
2017 DS	122,465	1,245,804	1,770,124	1,769,867	1,774,130
Total Debt Service	567,465	1,691,764	2,219,785	2,219,528	2,223,190
Debt Service Coverage	1.75	1.36	1.50	1.76	2.12