

\$50,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
SCHOOL FACILITY REVENUE BONDS
(KIPP LA PROJECTS)
SERIES 2017 (TAX-EXEMPT)

EXECUTIVE SUMMARY
RESOLUTION 17-20

Borrower:	KLARE Holdings
Landlords at Facilities:	BH Soto, LLC, Curiosity RE, LLC, and SeLA, LLC
Project User:	KIPP LA Schools for the operation of KIPP Academy of Innovation, KIPP Comienza Community Prep, and KIPP Corazon Academy
Loan Amount:	Not to exceed \$50,000,000
Expected Issuance:	July 2017
Project:	Financing and refinancing of educational facilities for KIPP LA campuses – see “Use of Bond Proceeds” below.
Bond Type:	School Facility Revenue Bonds (Tax-Exempt Series) (the “Bonds”)
Project Location:	1) 4240 E. Olympic Blvd, Los Angeles, CA; 2) 7300 Roseberry Ave, Huntington Park, CA; 3) 9325 Long Beach Blvd, South Gate, CA
County:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Est. Annual Payment:	\$2,996,000
Anticipated Rating:	BBB-
Structure:	\$45,790,000 (Tax-Exempt)
Sale Method:	Limited Public Offering
Underwriter:	Robert W. Baird & Co.
Financial Advisor	Buck Financial
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Trustee:	Zions Bank, a division of ZB, National Association

*Not-To-Exceed Amount

I. Use of Bond Proceeds/Project Information

The proceeds of the Bonds will be used for the following purposes: 1) finance and refinance the cost of acquisition and construction of school facilities for KIPP Academy of Innovation (“Innovation”) located at 4240 E. Olympic Blvd, Los Angeles, CA at an estimated cost of \$15.3 million, 2) finance and refinance the cost of acquisition and construction of school facilities for KIPP Comienza Community Prep (“Comienza”) located at 7300 Roseberry Ave, Huntington Park, CA at an estimated cost of \$15.5 million 3) finance and refinance the cost of acquisition and construction of school facilities for KIPP Corazón Academy (“Corazón”) located at 9325 Long Beach Blvd, South Gate, CA at an estimated cost of \$16.1 million (collectively, the “KIPP LA Projects”).

Site	Landlord	Location	Purpose	Amount
KIPP Academy of Innovation	BH Soto, LLC	4240 E. Olympic Blvd, Los Angeles, CA	Land Acquisition & New Construction	\$15,300,000.00
KIPP Comienza Community Prep	Curiosity RE, LLC	7300 Roseberry Ave, Huntington Park, CA	Land Acquisition & New Construction	\$15,500,000.00
KIPP Corazón Academy	SeLA, LLC	9325 Long Beach Blvd, South Gate, CA	Land Acquisition & New Construction	\$16,100,000.00
Total Estimated Project Costs				\$46,900,000.00

II. KIPP LA Schools / KLARE Holdings

KIPP LA Schools (KIPP LA) currently operates 14 free public charter schools on 15 campuses throughout South and East Los Angeles in California. Each of KIPP LA and KLARE Holdings (KLARE) is a California nonprofit public benefit corporation and an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. KLARE exclusively supports KIPP LA in its role of financing, developing, leasing and maintaining KIPP LA school facilities. KIPP LA currently leases three facilities out of four of its charter schools from KLARE or one of its wholly-owned subsidiaries. Each of KIPP LA and KLARE is governed by a separate and independent board of directors. KIPP LA is part of the larger KIPP (Knowledge is Power Program) network of schools that began in 1994. Currently, there are 144 schools in 20 states and Washington D.C., which serve more than 50,000 students that are part of the larger KIPP network.

KIPP LA’s schools serve a combined student population of approximately 3,000 students in South and East Los Angeles. More than 98% of the students at KIPP LA’s charter schools are African American or Latino, approximately 89% qualify for free and reduced meals, and approximately one-third are classified as English Learners.

KIPP LA is a student-focused organization whose key concentration is on academic achievement and character development to help its students get on the path to success in college and ultimately life. KIPP LA requires that schools ardently believe in and integrate KIPP’s “Five Pillars”, which are discussed below, and KIPP LA’s mission and values into their school culture and design. KIPP LA requires that its schools teach standards-based curriculum and integrate data and analysis to guide and improve teaching and learning. Additionally, KIPP LA expects each school to focus on character development and success in college as its ultimate goals. Each school is expected to be sustainable with respect to public financing at full enrollment, which is typically the fourth year after opening. Finally, all KIPP LA schools have shared outcomes, and are measured by an overall performance management system designed to

ensure that each school is meeting the goals outlined in its charter and approved by KIPP LA management and KIPP LA's Governing Board.

III. Financial Structure

The Bonds are expected to be issued in one series which will be issued in the approximate aggregate principal amount of \$45,790,000. The Bonds will be amortized over 30 years with a final maturity date of July 1, 2047.

IV. Security and Source of Payment

The Bonds are limited obligations payable through the intercept of KIPP LA's apportionments at the KIPP LA Projects pursuant to California Education Code Section 17199.4 and amounts made available by Obligated Group through the obligation of the Obligated Group issued in connection with the issuance of the Bonds. In addition, the Facilities will be subject to one or more deeds of trust as security for the Bonds and other obligations of the Obligated Group. Other than what is made available through the Obligated Group, no interest in separate facilities of the Borrower, other members of the Obligated Group, or KIPP LA will be used to secure the bonds.

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. If one is warranted after approval, a series of taxable bonds may be issued in addition to the Bonds under the parameters being approved in connection with the Bonds.

Estimated Sources & Uses

Sources:	Series 2017A (Tax-Exempt)	Total
Bond Proceeds:		
Par Amount	\$45,790,000.00	\$45,790,000.00
Premium	\$1,249,837.95	\$1,249,837.95
	\$47,039,837.95	\$47,039,837.95
Other Sources of Funds		
KIPP LA Schools Equity Contribution	\$6,000,000.00	\$6,000,000.00
	\$53,039,837.95	\$53,039,837.95
Uses:	Series 2017A (Tax-Exempt)	Total
Project Fund Deposits:		
Innovation (land & construction)	\$15,300,000.00	\$15,300,000.00
Comienza (land & construction)	\$15,500,000.00	\$15,500,000.00
Corazón (land & construction)	\$16,100,000.00	\$16,100,000.00
	\$46,900,000.00	\$46,900,000.00
Other Fund Deposits:		
Debt Service Reserve Fund	\$2,996,000.00	\$2,996,000.00
Capitalized Interest Fund	\$2,110,656.25	\$2,110,656.25
Delivery Date Expenses:		
Cost of Issuance	\$549,513.50	\$549,513.50
Underwriter's Discount	\$480,795.00	\$480,795.00
	\$1,030,308.50	\$1,030,308.50

Other Uses of Funds:			
	Contingency	\$2,873.20	2,873.20
	Total	\$53,039,837.95	\$53,039,837.95

Estimated Costs of Issuance

Cost of Issuance	Budgeted Amount
Issuer Fee	\$32,895.00
STO Agent for Sale Fee	\$6,000.00
Issuer Application Fee (Reimburse Borrower)	\$1,500.00
Issuer's Annual Fee (paid upfront)	\$6,868.50
Issuer Counsel Fee (AG's Office)	\$8,000.00
Bond Counsel Fee & Expenses (Orrick Herrington)	\$115,000.00
Bond Counsel Expenses (Not-to-Exceed)	\$5,000.00
Underwriter's Counsel Fee (Kutak Rock - BPA) (Est.)	\$25,000.00
Trustee Acceptance, Set Up and Legal Counsel Review	\$3,500.00
Trustee CA Counsel Fee	\$2,000.00
Supplemental Indenture Bond Trustee Annual Administration Fee Paid Upfront	\$3,500.00
Dissemination Agent Fee	\$500.00
POS/OS Printing	\$5,000.00
Rating Fee	\$66,750.00
Financial Advisor Fee (Buck Financial) (NTE)	\$200,000.00
Financial Advisor Expenses	\$3,000.00
Title Insurance - Estimate	\$30,000.00
Underwriter Expenses	\$15,000.00
Miscellaneous	\$20,000.00
Total COI	\$549,513.50

**Numbers based on par amount of \$45,790,000*

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 KIPP LA 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, 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 expected to receive a BBB- rating. 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 \$25,000;
2. Bonds may be publicly offered or privately placed;
3. Bonds will be privately placed or publicly offered initially to QIBs and AIs;

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. Bond payments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code.

However, if the Bonds receive a rating lower than BBB-, the following sales restrictions will apply:

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 17-20 Issuance of School Facility Revenue Bonds in an Amount Not to Exceed \$50,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and /or Equipping of Educational Facilities Located in Los Angeles County, California for use by KIPP LA Schools.

Exhibit A
5-Year Budget Projections and Coverage Ratios
(KIPP LA Schools)

KIPP LA Schools

Multi-Year Financial Report (Related Schools)

As of March 31, 2017

Income Statement	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022
	Actual	Projected	Projected	Projected	Projected	Projected
ENROLLMENT	4,954	5,500	5,914	6,322	6,584	6,733
REVENUE						
<i>General Purpose Funding</i>						
Revenue Limit State-Aid	31,409,137	37,644,483	42,149,166	46,347,677	49,789,559	55,955,230
Prop 30 - Education Protection Account	4,257,221	4,191,651	4,275,702	4,513,525	4,599,597	1,287,526
Charter School General Purpose (State)	-	-	-	-	-	-
In Lieu of Property Tax	9,848,625	9,970,522	10,741,506	11,483,235	11,955,941	12,224,737
<i>Total General Purpose Funding</i>	45,514,983	51,806,656	57,166,374	62,344,437	66,345,096	69,467,494
<i>Federal Revenue</i>						
SPED - IDEA	920,220	1,012,568	1,090,866	1,166,193	1,214,199	1,241,497
Federal Nutrition Program	2,356,643	2,621,586	2,919,456	3,228,272	3,490,435	3,684,281
Title I Funding	1,811,063	1,622,979	1,740,289	1,850,965	1,923,671	1,964,818
Other Title Funding	142,945	181,897	194,129	205,665	213,928	219,254
E-rate	553,063	431,200	467,745	481,122	515,169	528,049
Other Federal	111,976	113,726	113,726	113,726	113,726	113,726
<i>Total Federal Revenue</i>	5,895,911	5,983,957	6,526,210	7,045,944	7,471,129	7,751,624
<i>Other State Revenue</i>						
State Lottery	932,560	886,739	992,353	1,069,088	1,142,911	1,189,959
Special Education	2,921,111	3,326,811	3,628,560	3,939,768	4,185,361	4,370,878
Charter School Facility Grants - SB740 State	2,833,078	3,937,909	4,242,413	4,535,363	4,722,060	4,828,223
State Nutrition Reimbursement	176,387	180,410	200,923	222,178	240,266	253,655
Other State Revenue	2,052,351	1,478,627	1,904,703	1,167,880	1,173,430	1,176,967
<i>Total Other State Revenue</i>	8,915,486	9,810,495	10,968,952	10,934,277	11,464,028	11,819,682
<i>Other - Local Revenue</i>						

Donations and Grants-Schools	3,281,004	1,528,000	3,400,000	3,460,000	3,500,000	2,600,000
Donations and Grants-SST	135,311	-	-	-	-	-
KIPP Foundation-CSP Grant	375,130	481,178	275,000	-	-	-
Other Local Revenue	407,647	175,344	194,732	215,048	232,126	244,473
<i>Total Other Local Revenue</i>	4,199,092	2,184,523	3,869,732	3,675,048	3,732,126	2,844,473
TOTAL REVENUE	64,525,472	69,785,631	78,531,267	83,999,707	89,012,379	91,883,272

EXPENSE

Certificated Salaries

Certified Teacher Salaries	18,097,638	20,289,979	22,001,833	23,832,751	25,136,697	26,055,097
Other Certificated Pupil Support	857,972	904,331	1,007,560	1,137,683	1,184,052	1,250,402
Certificated Administrators	1,898,923	2,462,746	2,572,176	2,732,420	2,899,069	2,971,546
Other Certificated, Non-Supervisory	1,301,136	1,617,705	1,490,013	1,617,874	1,740,269	1,783,776
<i>Total Certificated Salaries</i>	22,155,669	25,274,761	27,071,582	29,320,728	30,960,087	32,060,820

Classified Salaries:

Non-Certificated Instructional Aides	1,974,571	2,125,218	2,467,351	2,677,036	2,821,283	2,932,134
Technical, Clerical, Office Staff	1,748,405	1,825,429	2,044,566	2,087,152	2,183,037	2,237,613
<i>Total Classified Salaries</i>	3,722,977	3,950,647	4,511,917	4,764,189	5,004,320	5,169,747

Employee Benefits

Pension Contributions	369,394	381,622	435,619	495,405	538,551	554,336
FICA	1,846,518	2,105,471	2,283,740	2,472,682	2,614,187	2,708,491
Medical/Insurance/SUI	2,327,369	2,755,022	3,057,141	3,437,591	3,787,842	4,088,221
Workman's Comp	214,013	232,497	254,279	277,844	296,791	310,956
401(k) Contributions	415,545	504,027	540,671	579,539	609,220	629,801
Other Employee Benefits	167,906	180,500	195,000	210,000	216,000	219,000
<i>Total Employee Benefits</i>	5,340,745	6,159,139	6,766,450	7,473,061	8,062,591	8,510,804

Supplies & Materials

Textbooks/Instructional Resources	737,163	475,000	462,560	475,790	489,920	502,168
Instructional Materials & Supplies	1,106,380	1,142,164	1,237,378	1,281,467	1,344,554	1,387,058
Non-Capitalized Equipment						
Classroom Technology	506,610	567,547	532,175	519,190	534,610	547,975
Classroom Software	397,089	387,259	393,133	404,377	416,387	426,796
Classroom Furniture	458,781	165,000	404,372	364,437	199,618	172,391
Staff/Office Technology & Equipment	310,393	550,069	349,233	341,649	351,796	360,591
Food Service	2,626,488	2,915,980	3,277,902	3,651,459	3,949,268	4,170,813

<i>Total Supplies & Materials</i>	6,142,904	6,203,020	6,656,754	7,038,369	7,286,154	7,567,793
<i>Operating Services</i>						
General Liability Insurance	171,037	169,004	187,800	209,379	225,660	236,918
Utilities (Gas, Electric, Water)	526,149	715,000	846,113	925,608	1,002,851	1,059,538
Other Operations/Housekeeping Services	1,211,722	1,418,500	1,761,072	1,882,055	2,024,513	2,092,375
Repairs & Maintenance (Non-Cap)	862,716	585,600	635,687	653,868	673,288	690,120
Equipment/Copier Leases	489,633	495,845	538,556	581,691	598,967	613,941
Audit & Legal, Payroll & Banking	230,240	234,452	225,022	236,763	246,250	253,140
Instructional Consulting	641,843	589,092	614,343	636,698	659,176	676,266
License & Authorizer Fees, Other Dues/Fees	885,220	963,609	1,039,628	1,105,121	1,150,319	1,182,340
Special Education Services	1,051,980	1,463,076	1,807,345	1,953,997	2,073,391	2,166,609
Professional Development & Recruitment	565,163	618,250	632,090	655,513	670,742	683,942
Local Field Lessons	497,428	486,559	542,136	587,110	620,207	644,464
Communications/Internet	557,647	731,500	841,332	869,096	925,330	948,879
Misc. Operating Expenses	289,006	406,573	250,624	468,155	482,167	491,104
<i>Total Operating Services</i>	7,979,785	8,877,059	9,921,748	10,765,053	11,352,861	11,739,635
TOTAL OPERATING EXPENSES	45,342,079	50,464,626	54,928,451	59,361,400	62,666,012	65,048,800
Net Income Available for Lease Payments/Debt Service						
	19,183,393	19,321,005	23,602,817	24,638,306	26,346,367	26,834,473
<i>Rent</i>						
Ground Lease Payments	956,016	978,883	1,002,578	1,027,135	1,072,986	1,108,609
Related Schools Existing Lease Payments	1,368,540	1,350,108	758,906	894,000	1,620,951	1,620,951
Series 2014 Base Rental Payments	2,786,096	2,342,098	2,288,116	2,289,735	2,249,485	2,269,129
Series 2015 Base Rental Payments	1,201,394	1,392,043	1,442,323	1,435,306	1,484,784	1,483,964
Estimated Series 2017 Base Rental Payments	-	-	2,993,438	2,993,063	2,991,563	2,993,938
Repair & Replacement Fund & Bond Fees	217,127	308,728	342,215	361,227	205,230	110,513
Other Leases	-	-	-	-	-	-
<i>Total Facility Lease Payments</i>	6,529,173	6,371,861	8,827,575	9,000,466	9,624,999	9,587,104
Excess Net Income (After Rent)	12,654,220	12,949,144	14,775,241	15,637,841	16,721,368	17,247,368
KIPP LA Management Fee	9,279,215	10,238,645	11,269,690	12,080,956	12,826,857	13,392,491
Coverage Analysis						
Coverage Ratio Before Management Fee	2.94	3.03	2.67	2.74	2.74	2.80
Coverage Ratio After Management Fee	1.52	1.43	1.40	1.40	1.40	1.40

Exhibit B
5-Year Enrollment Projections

KIPP LA Schools

5-Year Enrollment Projections (Related Schools)

	Grades	Actual		Projected			
		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
LA Prep	5-8	497	490	490	490	490	490
Opportunity	5-8	396	395	417	469	475	475
Raíces	K-4	554	558	561	562	565	565
Empower	K-4	563	565	565	565	565	565
Comienza (Lower)	K-4	571	571	571	565	565	565
Comienza (Upper)	5-8	118	250	370	485	485	485
Scholar	K-4	389	389	410	420	450	465
Sol	5-8	505	495	490	490	490	490
Iluminar	5-8	555	555	558	558	558	558
Vida	K-4	439	550	555	555	555	555
Innovation	5-8	367	477	485	485	485	485
Corazón (Lower)	K-4	--	205	320	428	531	550
Corazón (Upper)	5-8	--	--	120	250	370	485
Total: K-4		2,516	2,838	2,982	3,095	3,231	3,265
Total: 5 - 8		2,438	2,662	2,930	3,227	3,353	3,468
GRAND TOTAL		4,954	5,500	5,912	6,322	6,584	6,733
% Growth		13.89%	11.02%	7.49%	6.94%	4.14%	2.26%