

\$19,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(ROCKETSHIP EDUCATION – OBLIGATED GROUP)
2017 Series G (Tax-Exempt) and 2017 Series H (Taxable)

EXECUTIVE SUMMARY
RESOLUTION 17-21

Borrower:	Launchpad Development Company, a California nonprofit public benefit corporation
Project Users:	Rocketship Education, as operator of Rocketship Antioch, Rocketship Mateo Sheedy and Rocketship Fuerza
Loan Amount:	Not to exceed \$19,000,000
Expected Issuance:	December 2017
Project:	The bond proceeds will be used by the Borrower to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of land and/or educational facilities for use by Rocketship Education as operator of Rocketship Antioch, Rocketship Mateo Sheedy Elementary and Rocketship Fuerza Community Prep
Bond Type:	Charter School Revenue Bonds (Tax-Exempt and Taxable Bonds)
Project Location:	Antioch, California; and San Jose, California
County:	Contra Costa County and Santa Clara County
District in which Project is Located:	Antioch Unified School District, San Jose Unified School District, and Alum Rock Union Elementary School District
Charter Authorizer:	Antioch Unified School District and Santa Clara County Office of Education
Est. Annual Payment:	\$1.10 million
Expected Rating:	The bonds will be nonrated
Expected Structure:	Term Bonds amortized over 35 years, with a final maturity date for the tax-exempt of 6/1/2053, and a final maturity date for the taxable of 6/1/2026.
Sale Method:	Public Offering
Underwriter:	Stifel, Nicolaus & Company, Inc.
Trustee:	Wilmington Trust, National Association
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP

I. Use of Bond Proceeds / Project Information

The Applicant is requesting the issuance of Charter School Revenue Bonds to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of land and/or educational facilities located at (i) 1700 Cavallo Road, Antioch, CA (the "RAD Site"), (ii) 788 Locust Street, San Jose, CA, and (iii) 70 South Jackson Avenue, San Jose, CA. \$1.2 million will be used to pay off a loan from the Low Income Investment Fund (the "LIIF Loan"). The LIIF Loan financed a portion of the purchase of the 1.7-acre Cavallo Road property and can be prepaid at any time without penalty before January 25, 2020. Additionally \$12.55 million will be used for the demolition of the building currently on the RAD site and subsequent construction of a new, 24,357 square-foot, 2-story building. The new building will house the Rocketship Antioch school opening in Fall 2018, designed to serve approximately 600 students in grades TK-5. Approximately \$120,000 is expected to be used for the modernization of the passenger elevator at the Rocketship Mateo Sheedy site and for the installation of a shade structure in the play area at the Rocketship Fuerza site. An additional \$2.4 million is expected to finance (a) a debt service reserve fund; (b) capitalized interest through September 1, 2018; and (c) costs of issuance for the Bonds. The following table summarizes the expected project fund amounts for each of the three project locations:

Site	Landlord	Location	Purpose	Amount
Rocketship Antioch	Launchpad Development Eighteen LLC	1700 Cavallo Road, Antioch, CA 94509	Takeout of existing LIIF loan; Acquisition, Construction, Development	\$14,472,983
Rocketship Mateo Sheedy	Launchpad Development One LLC	788 Locust Street, San Jose, CA, 95110	Improvements	\$76,000
Rocketship Fuerza	Launchpad Development Twelve LLC	70 S. Jackson Ave., San Jose, CA 95116	Improvements	\$44,000
Total Estimated Project Costs				\$14,592,983*

II. Launchpad Development Company/Rocketship Public Schools

Launchpad Development Company ("LPD") is a California nonprofit public benefit corporation, a 501(c)(3) organization and a 509(a)(3) support organization to Rocketship Education (also known as Rocketship Public Schools or "RPS") that develops, owns and maintains real estate projects for RPS. Each real estate development project sponsored by LPD is organized as its own LLC to act as Landlord to an Obligated Group School. (e.g. Antioch's landlord is Launchpad Development Eighteen LLC). Rocketship Public Schools was founded in 2006 and is a national charter management organization currently serving approximately 9,000 students in 18 elementary schools in 4 different regions, including 12 in the San Francisco Bay Area.

Rocketship Public Schools is led by co-founder and CEO Preston Smith. According to information provided by the borrower, in its first year of operation, Rocketship Education's first school, Rocketship Mateo Sheedy Elementary School became the highest ranked low-income elementary school in Santa Clara County and the seventh ranked school in California. This caused enormous demand from parents in other parts of Santa Clara County for Rocketship Education to open additional schools. Based on the success of Rocketship Mateo Sheedy Elementary School, the founders decided to expand Rocketship Education to serve other schools in the most troubled neighborhoods in San Jose. Rocketship Education believes that it

has taken the successful model pioneered at Rocketship Mateo Sheedy Elementary School and translated it into the critical systems necessary for successful replication. Rocketship Education will provide each Rocketship school with systems and support for Curriculum, Finance, Legal, Learning Lab, and Human Resources. By capturing the best practices from Rocketship Mateo Sheedy Elementary School, Rocketship Education believes that each Rocketship school can avoid many of the startup hurdles faced by most charter schools and expediently produce strong academic results and a solid school culture by focusing on the key levers which drive student achievement. Rocketship Education contends that its model is fundamentally different from other elementary schools in five important ways: an extended school day, high expectations, teacher teaming, deep community involvement, and individualization for each student.

Rocketship Education is designed to serve students who are or may be at risk of achieving below basic proficiency on state exams. Rocketship Education intends to attract children of parents who are seeking an alternative to their current educational system, who desire an innovative educational approach, and who share the vision of Rocketship Education. Rocketship Education anticipates that it will enroll primarily students from schools which are undergoing program improvement ("PI") in conjunction with the Federal No Child Left Behind regulations.

III. Financial Structure

The Series 2017 G and H bonds will be issued on a parity basis with the other Rocketship Obligated Group Bonds. Series 2017 G, the \$16,090,000 tax-exempt tranche, is expected to mature on June 1st, 2053. Series 2017 H, the \$865,000 taxable component, is expected to mature on June 1st, 2026. This would be the fourth issuance for Rocketship through CSFA.

IV. Security and Source of Payment

The Bonds will be payable out of Payments under the Indenture, to be dated as of December 1, 2017 (the "Indenture"), between the Authority and Wilmington Trust, National Association (the "Bond Trustee"), consisting primarily of moneys received by the Bond Trustee with respect to the Intercept and Loan Repayments received by the Bond Trustee pursuant to the Loan Agreement, dated as of December 1, 2017 (the "Loan Agreement"), between the Authority and Launchpad Development Company, and acknowledged and agreed to by Launchpad Development Eighteen, LLC, Launchpad Development One, LLC, and Launchpad Development Twelve, LLC. The obligations of the Borrower under the Loan Agreement are secured by: (i) a pledge of each Obligated Group Member's unrestricted revenues, including all Rent collected from each School Tenant. Base Rent payments are cross-collateralized between the 12 Obligated Schools. Educational Management and Property Management Fees are subordinated to the payment of Rent pursuant to each Lease Agreement.

V. Preliminary Sources and Uses and Costs of Issuance

Below are the preliminary estimated sources and uses, and detailed information about the expected 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 and are further subject to final pricing. Members will be provided updated figures should significant changes occur before the board meeting date.

Sources:	Series 2017A (Tax-Exempt)	Series 2017B (Taxable)	Total
Bond Proceeds:			
Par Amount	\$16,210,000	\$745,000	\$16,955,000
Bond Premium	\$55,459	\$0	\$55,459
Total Sources	\$16,265,459	\$745,000	\$17,010,459

Uses:	Series 2017A (Tax-Exempt)	Series 2017B (Taxable)	Total
<u>Project Fund Deposits:</u>			
LIIF Loan Takeout	\$1,200,000	\$0	\$1,200,000
RAD Project Budget	\$12,967,983	\$305,000	\$13,272,983
RMS Project Budget	\$76,000	\$0	\$76,000
<u>RFZ Project Budget</u>	<u>\$44,000</u>	<u>\$0</u>	<u>\$44,000</u>
Total Project Fund	\$14,287,983	\$305,000	\$14,592,983
<u>Other Fund Deposits:</u>			
Debt Service Reserve Fund	\$1,047,273	\$56,302	\$1,103,575
Capitalized Interest Fund	\$609,269	\$38,348	\$647,618
<u>Delivery Date Expenses:</u>			
Cost of Issuance	\$162,209	\$175,812	\$338,021
Underwriter's Discount	<u>\$154,591</u>	<u>\$167,554</u>	<u>\$322,145</u>
Total Issuance Costs	\$316,800	\$343,366	\$660,166
<u>Other Uses of Funds:</u>			
Contingency	\$4,133	\$1,984	\$6,117
Total	\$16,265,459	\$745,000	\$17,010,459

<u>Cost of Issuance:</u>	<u>Budgeted Amount</u>
Issuer Fee	\$31,020.75
Agent-for-Sale Fee	\$6,000.00
Financial Advisor Fee	\$0.00
Bond Counsel Fee	\$100,000.00
Borrower's Counsel Fee	\$50,000.00
Trustee Fee	\$10,000.00
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 (<i>specify</i>)	
Contingency	\$20,000.00
Underwriter's Counsel Fee	\$75,000.00
Title Insurance	\$30,000.00
Appraisal	\$7,500.00
Independent Consultant Report	\$2,500.00
Total COI	\$338,020.75

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 of 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 Rocketship Public Schools.

VII. Due Diligence Undertaken to Date

No information was disclosed that questions the financial viability or legal integrity of the Borrower. Standard opinions of counsel to the Borrower (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 Sales Restrictions

Per Bond Issuance Guidelines adopted by the CSFA board, and given that the bonds may be Unrated, the following sales restrictions may apply to the Rocketship Public Schools financing: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Bonds will be in minimum denominations of \$250,000;
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. 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 17-21 Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$19,000,000 to Finance and/or Refinance the Acquisition, Construction, Expansion, Remodeling, Renovation, Improvement, Furnishing, and/or Equipping of Educational Facilities Located in Contra Costa County, California and Santa Clara County, California for use by Launchpad Development Company and Rocketship Public Schools.

Exhibit A
5-Year Enrollment and Financial Projections and Coverage Ratios

	Budget 2017-18*	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22	Projected 2022-23
Enrollment						
Enrollment	-	386	488	539	595	646
ADA	-	362.8	458.6	507.0	559.6	607.5
ADA %	-	94.0%	94.0%	94.0%	94.0%	94.0%
Revenues						
State Funding	\$ -	\$ 3,705,242	\$ 4,721,223	\$ 5,219,519	\$ 5,761,481	\$ 6,254,788
SB740 Revenues**	-	303,969	384,230	424,717	468,816	508,947
Federal Revenues	25,800	810,783	459,825	532,057	587,204	641,025
Grants & Fundraising	100,000	-	-	-	-	-
Other Revenues	-	9,248	43,948	55,449	34,211	1,575
Total Revenue	\$ 125,800	\$ 4,829,243	\$ 5,609,225	\$ 6,231,742	\$ 6,851,712	\$ 7,406,335
Expenses						
Certified Salaries	\$ -	\$ 1,186,975	\$ 1,403,597	\$ 1,555,499	\$ 1,640,677	\$ 1,797,721
Classified Salaries	74,000	503,998	633,810	648,204	696,045	701,423
Benefit	10,469	480,699	609,196	675,224	715,342	768,090
Books & Supplies	696	519,059	329,369	341,141	345,648	340,379
Net Income	11,625	922,268	1,131,799	1,229,414	1,285,327	1,318,502
Total Operating Expenses	\$ 96,790	\$ 3,612,999	\$ 4,107,771	\$ 4,449,483	\$ 4,683,040	\$ 4,926,115
[B] Net Operating School Revenues	\$ 29,010	\$ 1,216,245	\$ 1,501,455	\$ 1,782,259	\$ 2,168,672	\$ 2,480,219
[A] Base Rent (Series 2017GH Debt Service)	-	657,356	876,475	876,475	966,475	1,101,075
[B/A] Base Rent Coverage	N/A	1.85x	1.71x	2.03x	2.24x	2.25x

*Rocketship Antioch will open in Fall 2018, meaning its first year of operations will be FY2018-19.

**Projections assume SB740 funding at 75% of \$1,117/ADA (i.e. \$837.75/ADA), anticipating continued oversubscription for the program.

***Definition of Operating Expenses to calculate Base Rent Coverage Ratio excludes Base Rent and subordinated management fees.