

\$18,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
EDUCATIONAL FACILITY 2018 TAX-EXEMPT LOAN
(KIPP BAY AREA PUBLIC SCHOOLS PROJECT)
EXECUTIVE SUMMARY
RESOLUTION 18-20

Borrower:	KBARE (KIPP Bay Area Real Estate) (the "Borrower")
Project User:	KIPP Bay Area Public Schools as operator of KIPP Bridge Academy and KIPP Heritage Academy
Loan Amount:	Not-to-exceed \$18,000,000
Expected Issuance:	September 2018
Project:	The proceeds of the Loan will be used to finance and refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of certain charter school educational facilities and pay certain expenses incurred in connection with the Loan and the financing of the Borrower's Project.
Debt Type:	Educational Facility 2018 Tax-Exempt Loan
Project Location:	See "Project Information" section
County Served:	Alameda and Santa Clara
District in which Project is Located:	Oakland Unified School District and Franklin-McKinley School District
Charter Authorizer:	Oakland Unified School District and Franklin-McKinley School District
Est. Annual Payment:	\$1,020,000
Anticipated Rating:	N/A
Structure:	Up to \$18,000,000 Tax-Exempt Fixed Rate Loan
Sale Method:	Private Placement
Lender/Purchaser:	Mutual of Omaha Bank
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Master Trustee:	Zions First National Bank

*Not-to-exceed Amount

I. Use of Loan Proceeds / Project Information

KBARE wishes to obtain a tax-exempt bank loan from Mutual of Omaha Bank to refinance a construction loan and to reimburse KIPP Bay Area Public Schools (KBAPS) for each of the two projects, construction of both which will be completed prior to closing the Loan. The Loan will have a term of 5-years and can be refinanced beginning in year 1 by paying a redemption premium of 2% in year 1 and dropping 1% annually to par in year 3. The two projects are: 1) KIPP Bridge Academy, which operates at 1700 Market Street, in Oakland, California and, 2) KIPP Heritage Academy, which operates at 423 Los Arboles Street, in San Jose, California. The site on which the Oakland facility is located and an existing 53K sq. ft. facility containing 25 classrooms is leased by KBARE from Oakland Unified School District for a term of 20-years, with two 10-year renewal options. Additionally, KBARE is constructing a 17K sq. ft. annex with funds from KBAPS on the leased ground for the 2018-19 school year; With respect to the KIPP Heritage Academy in San Jose, KBARE leases the site from the Franklin-McKinley School District under a 30-year lease, with two 5-year renewal options. KBARE also constructed and owns a one-story 30K sq. ft. modular facility and adjacent gymnasium. The construction was financed by a loan arranged by Pacific Charter School Development (PCSD) and funds from KBAPS. This project was completed in July 2017 and is now occupied.

Site	Landlord	Location	Purpose	Amount
KIPP Bridge Academy	1700 Market LLC	1700 Market St., Oakland, CA	Refinancing	\$10,195,000
KIPP Heritage Academy	Seven Trees LLC	423 Los Arboles St., San Jose, CA	Refinancing	\$9,995,000
Total Estimated Project Costs				\$20,190,000

II. KIPP Bay Area Public Schools / KIPP Bay Area Real Estate

The Borrower is KBARE, a California nonprofit public benefit corporation exempt from federal income tax under section 501(a) as an organization described under section 501(c)(3) of the Internal Revenue Code. KBARE was formed as a support corporation for KBAPS, also a California non-profit public benefit corporation and also an organization described under section 501(c)(3). In 2017-18, KBAPS operated 12 schools across the Bay Area, educating over 5,000 students of which over 77% qualified for free or reduced lunch. KBARE is the initial Obligated Group Representative and the sole member of two California limited liability companies associated with this project: 1) 1700 Market School LLC, the landlord for KIPP Bridge Academy, and 2) Seven Trees School LLC, the landlord for KIPP Heritage Academy, and these two LLCs are the initial members of the obligated group. The facilities will be leased by 1700 Market School LLC and Seven Trees School LLC to KBAPS pursuant to the respective leases. Each lease is payable solely from the revenues of the school that is party to the applicable lease.

III. Financial Structure

The loan from Mutual of Omaha Bank will have a 5-year term, a tax-exempt interest rate of approximately 4.25%, and will be pre-payable beginning in year 1 at a 2% premium, declining 1% annually to par in year 3. The bank has indicated it prefers the note to be transferable.

IV. Security and Source of Payment

The loan will be secured by leasehold Deeds of Trust on both Bridge and Heritage encumbering KBARE's leasehold interests in each property through the single member LLCs. Source of repayment will be lease payments received by the LLCs from KBAPS. The leases are payable solely from the revenues of KBAPS derived from the operation of Bridge and Heritage. Lease rents will be paid, on behalf of KBAPS, by the State Controller directly to Mutual of Omaha Bank through the CSFA Intercept program under Education Code section 17199.4. KBAPS is required under the leases to maintain certain financial covenants at each of the two schools, as well as at the network level.

V. Preliminary Sources and Uses/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.

Estimated Sources & Uses

Sources:	Series 2018A (Tax-Exempt)	Total
Loan Proceeds		
Par Amount:	\$15,690,000.00	\$15,690,000.00
Equity Contribution:	\$4,500,000.00	\$4,500,000.00
Total:	\$20,190,000.00	\$20,190,000.00
Uses:	Series 2018A (Tax-Exempt)	Total
Project Fund Deposits:		
Refinance PCSD:	\$3,000,000.00	\$3,000,000.00
Refinance KBAPS:	\$12,300,000.00	\$12,300,000.00
KBAS Equity Contribution:	\$4,500,000.00	\$4,500,000.00
Total:	\$19,800,000.00	\$19,800,000.00
Other Fund Deposits:		
Debt Service Reserve Fund:	\$0.00	\$0.00
Delivery Date Expenses:		
Costs of Issuance:	\$390,000.00	\$390,000.00
Total:	\$390,000.00	\$390,000.00
Total:	\$20,190,000.00	\$20,190,000.00

Estimated Costs of Issuance

Costs of Issuance:	Budgeted Amount
Issuer Fee	\$19,000.00
Annual Admin Fee	\$2,700.00
Agent-for-Sale Fee	\$6,000.00
Issuer's Counsel Fee	\$8,000.00
Financial Advisor Fee (including expenses)	\$60,000.00
Bond Counsel Fee	\$75,000.00
Trustee Fee	\$5,000.00
Title Insurance Fee	\$25,000.00
Borrower's Counsel Fee	\$35,000.00
Appraiser Fee	\$13,500.00
Bank Fee/Other Fees	\$140,800.00
Total COI	\$390,000.00

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 KIPP Bay Area Schools, KIPP Heritage Academy, and KIPP Bridge Academy.

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. Sales Restrictions

Given that the Loan will be made by Mutual of Omaha Bank, the following restrictions will apply:

1. The Note will be in minimum denominations of \$100,000;
2. The Note will be privately placed initially to QIBs and AIs;
3. The initial Note purchaser will be required to execute an Investor Letter;
4. Subsequent transfers of the Note will be limited to QIBs and AIs;
5. Sales restrictions conspicuously noted on the Note and described in detail in offering materials, if any, as well as will be in the Loan 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. Loan repayments 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 18-20 Authorizing a Loan to the Authority in an Amount Not to Exceed \$18,000,000, the Issuance by the Authority of a Promissory Note Evidencing the Obligations of the Authority in Connection with Such Loan, and a Loan from the Authority to KBARE, to Finance and Refinance a project at Educational facilities Located in Alameda and Santa Clara Counties for use by KIPP Bay Area Public Schools, providing the terms and conditions for such loans and promissory note and other matters relating thereto, and authorizing the execution of certain documents in connection therewith.

