

\$40,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
CHARTER SCHOOL REVENUE BONDS
(EQUITAS – OBLIGATED GROUP)
SERIES 2018A (TAX-EXEMPT) AND 2018B (TAXABLE)
EXECUTIVE SUMMARY
RESOLUTION 18-23

Borrower:	Pico Union Collective (the “Borrower”)
Project User:	Equitas Academy Charter School, Inc.
Loan Amount:	Not to exceed \$40,000,000
Expected Issuance:	November 2018
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 Los Angeles County.
Bond Type:	Charter School Revenue Bonds (Taxable and Tax Exempt Series)
Project Location:	See “Project Information” section
Counties Served:	Los Angeles
District in which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles Unified School District
Est. Annual Payment:	Approximately \$2,212,500
Anticipated Rating:	Unrated
Structure:	\$35,140,000 (Tax-Exempt) and \$770,000 (Taxable)
Sale Method:	Public Offering
Underwriter:	Stifel, Nicolaus & Company, Incorporated
Bond Counsel:	Orrick, Herrington, & Sutcliffe
Trustee:	Wilmington Trust

*Not-to-Exceed Amount

I. Use of Bond Proceeds / Project

Bond proceeds are expected to be used to 1) refinance new market tax credit loans for Equitas Academy Charter School (“EQ1”), Equitas Academy #2 Charter School (“EQ2”), and Equitas Academy #3 Charter School (“EQ3”) 2) acquire Equitas Academy #4 Charter School (“EQ4”) facility currently located at 631 South Commonwealth Avenue and to be located at 2501-2511 West 7th Street, Los Angeles, CA 90057 and 3) to reimburse preliminary expenditures incurred in

connection therewith. Bond proceeds that are to be used for refinancing of the new market tax credits loans will be deposited in one or more escrow funds, and invested so that sufficient amounts will be available to repay principal amounts coming due on the new market tax credit loans as they come due.

The purpose of the project is to finance and refinance educational facilities summarized above, which will be owned by or leased to, and operated by, Equitas Academy Charter School, Inc., a California nonprofit public benefit corporation and the operator of public charter schools. The project is eligible under Section 17180 of the Education Code.

Site	Landlord	Location	Purpose	Amount
Equitas Academy ("EQ1")	Equitas #1 LLC	1700 Pico Blvd., Los Angeles, CA 90015	Refinance NMTC Loan	\$3,400,000.00
Equitas Academy #2 ("EQ2")	Equitas #2 LLC	2723 W. 8th St., Los Angeles, CA 90005	Refinance NMTC Loan	\$6,000,000.00
Equitas Academy #3 ("EQ3")	Equitas #3 LLC	1633-1656 W. 11th St., Los Angeles, CA 90015	Refinance NMTC Loan	\$5,967,000.00
Equitas Academy #4 ("EQ4")	Equitas #4 LLC	2501 7th St., Los Angeles, CA 90057	Purchase/Construction	\$15,938,716.00
Total Estimated Project Costs				\$31,305,716.00

II. School and Borrower Information

Equitas Academy Charter ("Equitas" or "EQ") is a charter school in Los Angeles that opened in 2009 and now serves 1,186 students in grades K-8 across 4 schools. Based on information provided by the school, Equitas provides a structured, achievement-based community that prepares its students to graduate from high performing college preparatory high schools and eventually four-year colleges and universities. Equitas believes in developing scholars character through their core values: curiosity, optimism, gratitude, grit, self-control, social intelligence, and zest. Equitas itself is a Latin word for justice, equity, and fairness. Equitas is a place where students are given an equitable learning experience, encouraging their development into people determined to make meaningful contributions to society and become self-motivated, competent and lifelong learners.

Equitas received all of its charters from Los Angeles Unified School District ("LAUSD") and has demonstrated high academic achievement over the past 9 years. Equitas's design provides a small-school environment with individual attention, strong relationships between staff and students, and close communication between school and home. Equitas primarily serves low-income Latino students who are also English language learners.

Equitas focuses heavily on its "college preparatory mission" – a slow growth model with focus on core content areas of literacy, math, social studies and science, and intentional use of data to drive instructional decisions. It lays the foundation for creating a school that personalizes the learning experience for each student, meets families' needs, and allows teachers more time to address the needs of each student. Through a small school setting and an individualized approach to learning, the Equitas model also best allows students (especially those with special needs or who are English Learners) to progress academically within the regular education classroom.

Pico Union Collective (“PUC”) was formed in 2017 and serves as the borrower. Its purpose is to acquire, develop, own and lease property in support of the programs of Equitas and for charitable purposes within the meaning of Section 501(c)(3) of the Code. PUC was formed, and shall operate, exclusively to support Equitas. Equitas is the sole voting member of the Borrower.

III. Financial Structure

The Bonds are expected to be issued in two series – Series A (Tax-exempt) of approximately \$35,140,000, and Series B (Taxable) of approximately \$770,000. The Bonds are expected to have a final maturity of June 1, 2055. The Bonds are expected to be interest-only through June 1, 2019 (the first principal payment will be June 1, 2019).

IV. Security and Source of Payment

The Bonds will be payable from and secured by Payments under the Indenture, consisting primarily of Loan Repayments under the Loan Agreement. The obligations of the Borrower under the Loan Agreement are payable from and secured by the Gross School Revenues of the Borrower. As further security for the Bonds, in connection with the issuance of the Bonds, instructions will be provided by Equitas to the State Controller’s Office pursuant to one or more lease agreements entered into by Equitas to make one or more apportionments to the Trustee in amounts and on dates provided in a written notice sufficient to repay the Bonds and pay necessary and incidental costs. Funds received by the Trustee pursuant to the Intercept described in clause (i) of the definition of Payments 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 state law, no party, including the Borrower or any of its 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 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 of board packets being distributed and the time of the board meeting – members will be provided updated figures should they change before the board meeting date.

Estimated Sources & Uses

Sources:	Series 2018A (Tax-Exempt)	Series 2018B (Taxable)	Total
Bond Proceeds:			
Par Amount	\$35,410,000.00	\$770,000.00	\$36,180,000.00
Total	\$35,410,000.00	\$770,000.00	\$36,180,000.00
Uses:	Series 2018A (Tax-Exempt)	Series 2018B (Taxable)	Total
Project Fund Deposits:			
NMTC Loan Refinance - EQ 1	\$3,400,000.00	\$0.00	\$3,400,000.00
NMTC Loan Refinance - EQ 2	\$6,000,000.00	\$0.00	\$6,000,000.00
NMTC Loan Refinance - EQ 3	\$5,967,000.00	\$0.00	\$5,967,000.00
Purchase/Construction Project - EQ 4	\$15,938,716.00	\$0.00	\$15,938,716.00
	\$31,305,716.00	\$0.00	\$31,305,716.00
Other Fund Deposits:			
Debt Service Reserve Fund	\$2,165,412.52	\$47,087.48	\$2,212,500.00
Capitalized Interest	\$1,231,806.92	\$26,785.97	\$1,258,592.89
Delivery Date Expenses:			
Cost of Issuance	\$707,064.56	\$696,126.55	\$1,403,191.11
	\$707,064.56	\$696,126.55	\$1,403,191.11
Total	\$35,410,000.00	\$770,000.00	\$36,180,000.00

Estimated Costs of Issuance

Expense	Amount
CSFA Issuance Fees	\$28,090.00
CSFA Admin Fees	\$5,427.00
Issuer's Counsel Fees	\$10,000.00
Agent-for-Sale Fees	\$6,000.00
Underwriter's Discount Fees	\$814,050.00
Bond Counsel Fees	\$175,000.00
Borrower's Counsel Fees	\$100,000.00
Disclosure Counsel Fees	\$95,000.00
Trustee & Trustee's Counsel Fees	\$10,000.00
LOM Fees	\$5,000.00
Appraisal Fees	\$30,000.00
Title Insurance Fees	\$80,000.00
Contingency Fees	\$44,624.11
Total	\$1,403,191.11

VI. Borrower Financial Data

Exhibit A contains financial and operational information for Equitas Academy Charter School, Inc.

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

Per Bond Issuance Guidelines adopted by the CSFA board, and given that the bonds will be unrated, the following sales restrictions will apply to the Equitas Academy – Obligated Group financing: <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 will be 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 18-23 authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$40,000,000 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 Pico Union and Equitas Academy Charter School, Inc.

Exhibit A – 5-year Financial Projections, Enrollment and Coverage Ratios

	Projected 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22	Projected 2022-23
ENROLLMENT					
Grades Served	K-8	K-8	K-8	K-8	K-8
Enrollment	1,422	1,646	1,751	1,751	1,751
Average Daily Attendance ("ADA")	1,365.0	1,575.2	1,676.1	1,676.1	1,676.1
ADA %	96.0%	95.7%	95.7%	95.7%	95.7%
REVENUE					
LCFF State Revenue	\$ 14,597,976	\$ 17,182,435	\$ 18,722,408	\$ 19,285,231	\$ 19,818,323
Federal Revenue	2,464,164	2,491,040	2,646,903	2,696,842	2,696,842
State Revenue	1,920,486	1,917,010	2,004,454	2,006,101	2,006,101
SB740 Revenue	962,148	1,485,034	1,490,622	1,492,432	1,497,830
Local Revenue	478,922	530,983	535,311	535,328	535,345
Total Revenues	\$ 20,423,696	\$ 23,606,503	\$ 25,399,698	\$ 26,015,934	\$ 26,554,442
EXPENSES					
Certified Salaries	\$ 5,735,400	\$ 6,653,946	\$ 7,361,276	\$ 7,544,304	\$ 7,813,841
Classified Salaries	2,264,058	2,539,708	2,706,162	2,776,834	2,782,023
Employee Benefits	2,223,697	2,653,550	2,979,159	3,069,271	3,160,785
Supplies	2,109,091	2,438,377	2,395,626	2,457,325	2,363,682
Operating Services	1,943,755	2,263,752	2,361,983	2,442,365	2,433,342
Existing Facility Lease	560,232	-	-	-	-
Base Rent - Ground Lease	500,171	505,816	511,630	517,619	523,788
Base Rent - 2018 Bond Net Debt Service	453,254	1,823,650	1,826,600	1,823,450	1,825,750
Depreciation/Amortization	219,503	193,619	109,754	73,091	48,198
Subordinated CMO Management Fees	3,027,600	3,925,389	3,897,820	4,541,190	4,678,985
Other Outgo	376,290	430,117	460,515	465,319	469,814
Total Expenses	\$ 19,413,051	\$ 23,427,925	\$ 24,610,525	\$ 25,710,768	\$ 26,100,208
Net Income	\$ 1,010,645	\$ 178,578	\$ 789,173	\$ 305,165	\$ 454,234
Add Back: Depreciation/Amortization	219,503	193,619	109,754	73,091	48,198
Add Back: Subordinated CMO Management Fees	3,027,600	3,925,389	3,897,820	4,541,190	4,678,985
Add Back: Base Rent	953,425	2,329,466	2,338,230	2,341,069	2,349,538
Net Operating School Revenue	\$ 5,211,173	\$ 6,627,052	\$ 7,134,977	\$ 7,260,516	\$ 7,530,955
Base Rent	\$ 953,425	\$ 2,329,466	\$ 2,338,230	\$ 2,341,069	\$ 2,349,538
Base Rent Coverage Ratio	5.47x	2.84x	3.05x	3.10x	3.21x
<i>Coverage after Management Fees</i>	<i>2.29x</i>	<i>1.16x</i>	<i>1.38x</i>	<i>1.16x</i>	<i>1.21x</i>

Projected Cash Position & Days Cash on Hand

	2018-19	2019-20	2020-21	2021-22	2022-23
Beginning Balance	\$ 3,903,637	\$ 4,117,002	\$ 4,177,023	\$ 4,809,892	\$ 5,098,469
Plus: Net Income	1,010,645	178,578	789,173	305,165	454,234
Plus: Depreciation/Amortization	219,503	193,619	109,754	73,091	48,198
Plus: Accounting Changes	(1,016,783)	(312,176)	(266,058)	(89,679)	(127,140)
Ending Cash Balance	\$ 4,117,002	\$ 4,177,023	\$ 4,809,892	\$ 5,098,469	\$ 5,473,761
Total Expenses	\$ 19,413,051	\$ 23,427,925	\$ 24,610,525	\$ 25,710,768	\$ 26,100,208
Less: (Depreciation/Amortization)	(219,503)	(193,619)	(109,754)	(73,091)	(48,198)
Less: (Base Rent)	(953,425)	(2,329,466)	(2,338,230)	(2,341,069)	(2,349,538)
Add: Maximum Annual Base Rent	2,349,538	2,349,538	2,349,538	2,349,538	2,349,538
Operating Expenses for OG Schools	\$ 20,589,661	\$ 23,254,378	\$ 24,512,078	\$ 25,646,146	\$ 26,052,010
Average Daily Expenses	\$ 56,410	\$ 63,711	\$ 67,156	\$ 70,263	\$ 71,375
Days Cash on Hand	73 days	66 days	72 days	73 days	77 days