

**\$18,000,000\***  
**CALIFORNIA SCHOOL FINANCE AUTHORITY**  
**EDUCATIONAL FACILITY 2019 TAXABLE LOAN**  
**(KIPP BAY AREA PUBLIC SCHOOLS PROJECT)**  
**EXECUTIVE SUMMARY**  
**RESOLUTION 19-03**

<b>Borrower:</b>	KBARE (the “Borrower”)
<b>Project User:</b>	KIPP Bay Area Schools, dba KIPP Bay Area Public Schools (“KBAPS”) as operator of KIPP Bridge Academy and KIPP Heritage Academy
<b>Loan Amount:</b>	Not-to-exceed \$18,000,000
<b>Expected Issuance:</b>	February 2019
<b>Project:</b>	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.
<b>Debt Type:</b>	Educational Facility 2019 Taxable Loans
<b>Project Location:</b>	See “Project Information” section
<b>County Served:</b>	Alameda and Santa Clara
<b>District in which Project is Located:</b>	Oakland Unified School District and Franklin-McKinley School District
<b>Charter Authorizer:</b>	Oakland Unified School District and Franklin-McKinley School District
<b>Est. Annual Payment:</b>	\$1,020,000
<b>Anticipated Rating:</b>	N/A
<b>Structure:</b>	Up to \$18,000,000 Taxable Fixed Rate Loan
<b>Sale Method:</b>	Private Placement
<b>Lender/Purchaser:</b>	Charter Impact Fund, Inc.
<b>Bond Counsel:</b>	Orrick Herrington & Sutcliffe, LLP (On behalf of Charter Impact Fund)
<b>Issuer’s Counsel:</b>	California Department of Justice
<b>Master Trustee:</b>	Zions Bancorporation, National Association

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\*Not-to-exceed Amount

## I. Use of Loan Proceeds / Project Information

KBARE wishes to obtain a taxable bank loan from Charter Impact Fund to refinance a construction loan and to reimburse (KBAPS) for each of the two projects, as construction of both will be completed prior to closing the Loan. Loan will have a 30-year term, with a maturity date of March 1, 2049 and is callable after 10 years. 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
<b>Total Estimated Project Costs</b>				<b>\$20,190,000</b>

The Charter Impact Fund (CIF) is a newly formed, tax-exempt 501(c)(3), funded initially by contributions from the Walton Family Foundation, with the purpose of making long-term, low-cost, fixed-rate loans to charter schools for their facilities. The fund is effectively a revolving loan fund, with existing loan repayment revenues used to make new loans. Additionally CIF intends to issue tax-exempt bonds to leverage the revenue streams from the school loan pool. Charter Impact Loans LLC (CIL) is the special purpose entity established and controlled by CIF for the express purposes of owning all school loans and acting as borrower on CIF bonds that may be intermittently issued to reimburse the cost of originating school loans and replenishing the fund to make additional loans. At closing CIF will transfer the CSFA/KBARE loan to CIL.

## II. KIPP Bay Area Public Schools / KBARE

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-fee-lunch. 2017-18 enrollment for KIPP Heritage Academy and KIPP Bridge Academy, the project schools, was 451 and 560, respectively.

KBARE, the Borrower, 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. 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 for use by the project schools. Rent payments under each lease will be payable from revenues of KBAPS derived from the operation of the respective schools.

### III. Financial Structure

The loan will be a 30-year, fully amortizing, fixed-rate structure, with a maturity date of March 1, 2049, callable in 10 years at par, whose interest rate is a taxable interest rate of approximately 4.67%.

### 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. The 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 the Charter Impact Fund, Inc. 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.

KBARE, 1700 Market School LLC and Seven Trees School LLC will enter into a Master Trust Indenture ("KIPP MTI") with Zions Bancorporation, National Association, as master trustee. The KIPP MTI will serve as a credit enhancement instrument for the obligations of KBARE to repay the School Loan.

### 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.

<b>Estimated Sources &amp; Uses</b>		
<b>Sources:</b>	<b>Series 2019</b>	<b>Total</b>
<b>Loan Proceeds</b>		
Par Amount:	\$15,587,408	\$15,587,408
Equity Contribution:	\$4,330,086	\$4,330,086
<b>Total:</b>	<b>\$19,917,494</b>	<b>\$19,917,494</b>
<b>Uses:</b>	<b>Series 2019</b>	<b>Total</b>
<b>Project Fund Deposits:</b>		
Refinance PCSD:	\$2,903,968	\$2,903,968
Refinance KBAS:	\$12,396,032	\$12,396,032
KBAS Equity Contribution:	\$4,330,086	\$4,330,086
<b>Total:</b>	<b>\$19,630,086</b>	<b>\$19,630,086</b>
<b>Delivery Date Expenses:</b>		
Costs of Issuance:	\$287,408	\$287,408
<b>Total:</b>	<b>\$287,408</b>	<b>\$287,408</b>
<b>Total:</b>	<b>\$19,917,494</b>	<b>\$19,917,494</b>

**Estimated Costs of Issuance (Costs Reflective of Some Mutual of Omaha Carryover)**

<b>Costs of Issuance:</b>	<b>Budgeted Amount</b>
<b>Mutual of Omaha Related</b>	
<b>Appraisal</b>	\$13,705
<b>Lender's Counsel (Kutak)</b>	\$44,000
<b>Good Standing Cert.</b>	\$118
<b>Environmental Fee</b>	\$1,025
<b>Flood Verification Fee</b>	\$60
<b>Bond Counsel (Orrick)</b>	\$50,000
<b>Subtotal</b>	<b>\$108,908</b>
<b>CIF/Closing Related Fees</b>	
<b>Title Fees</b>	\$25,000
<b>Survey</b>	\$5,000
<b>Lender's Counsel Fee (Orrick)</b>	\$50,000
<b>Upfront Rating Fee</b>	\$20,000
<b>Upfront BondLink Fee</b>	\$4,500
<b>Subtotal</b>	<b>\$104,500</b>
<b>Other</b>	
<b>CSFA Application Fee</b>	\$1,500
<b>Issuance Fee</b>	\$10,000
<b>Financial Advisor Fee</b>	\$62,500
<b>Subtotal</b>	<b>\$74,000</b>
<b>Total COI</b>	<b>\$287,408</b>

**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**

Typically, bond counsel (Orrick Herrington & Sutcliffe, LLP, or Orrick) serves as CSFA's counsel on financing transactions. However, in this financing, CSFA was requested to allow bond counsel to serve in that capacity on behalf of CIF. To protect CSFA's interests under such a structure, five conditions were established and the borrower and lender have agreed to these conditions:

1. The Authority note is taxable and non-transferrable (except within the CIF and its related entities and to Qualified Institutional Buyers in the case of default);
2. CIF does not require a bond counsel opinion from counsel retained by the issuer;
3. The standard investor letter has been enhanced to ensure the Authority is covered, with letters from both the Charter Impact Fund and Charter Impact Loans LLC.
4. CIF agreed that the CIF loan will not differ from the bank loan structure previously approved by CSFA.
5. The addressees on Orrick's bond counsel opinion will include CSFA.

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**

The Loan will be non-transferable except within the Charter Impact Fund and its affiliated entity, and in the case of default, and the following restrictions will apply:

1. The Note will not be broken into smaller denominations;
2. The Note will be privately placed with CIF and/or CIL;
3. CIF and CIL will each be required to execute an Investor Letter;
4. Subsequent transfers of the Note will be limited to transfers between CIF and CIL or to Qualified Institutional Buyers in the case of a default;
5. Sales restrictions will be conspicuously noted on the Note and described in detail in offering materials, if any, as well as included in the Loan documents;
6. 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 19-03 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.



