

**\$28,000,000\***  
**CALIFORNIA SCHOOL FINANCE AUTHORITY**  
**REVENUE NOTES**  
**(INSPIRE CHARTER SCHOOLS)**  
**SERIES 2019A (TAXABLE)**

**EXECUTIVE SUMMARY**  
**RESOLUTION**

<b>Borrowers:</b>	Inspire Charter School – Los Angeles, Inspire Charter Schools – Winship-Central, Clarksville Charter School, Pacific Coast Academy formerly d/b/a Learning Latitudes Charter School, and Heartland Charter School (the “Borrowers”)
<b>Project Users:</b>	The Borrowers
<b>Note Amount:</b>	Not to exceed \$28,000,000
<b>Expected Issuance:</b>	February 2019
<b>Project:</b>	The proceeds of the Note will be used as working capital for the various Borrowers.
<b>Note Type:</b>	Taxable Revenue Notes
<b>Project Location:</b>	Working capital in counties listed below
<b>Counties Served:</b>	Los Angeles, Fresno, El Dorado, San Diego, Kern
<b>District in which Project is Located:</b>	Buckeye Union, Westside, Acton-Agua Dulce, Dehesa, Maricopa
<b>Charter Authorizer:</b>	Buckeye Union, Westside, Acton-Agua Dulce, Dehesa, Maricopa
<b>Est. Annual Payment:</b>	N/A
<b>Anticipated Rating:</b>	N/A
<b>Structure:</b>	\$ 28,000,000
<b>Sale Method:</b>	Public Offering
<b>Underwriter:</b>	Piper Jaffray & Co.
<b>Bond Counsel:</b>	Orrick Herrington & Sutcliffe
<b>Trustee:</b>	Wilmington Trust, National Association

\*Not to Exceed Amount

**I. Use of Note Proceeds**

According to information provided by the applicant / borrower, as a new organization, the Inspire Network made large investments into infrastructure to allow for growth, resulting in deficits and a negative fund balance for the first few years of operations. Due to the State’s delay in applying current Average Daily Attendance (ADA) to funding streams, deficits were exacerbated by lack of financing options and the high costs of capital. While the schools have applied for and received Advanced Apportionments through Pupil Estimates for New or Significantly Expanding Charters

(PENSEC) and the Charter School Revolving Loan fund (issued through CSFA), the size of growth still led to large cash flow short falls.

During the 2017-18 school year, the family of schools cut the deficit fund balance by nearly 50%. Additionally, all schools are projected to end the current year with a positive fund balance. Although the schools will end with a positive fund balance, the timing of cash flow remains an issue due to the growth pattern. On a combined basis, the schools will have over \$28 million (or 12% of annual revenue) of public receivables due as of June 30, 2019, leaving a large cash flow gap to be filled. Inspire will use revenue note proceeds as working capital at its various campuses in anticipation of state receivable distributions. Previously Inspire met their cash flow borrowing needs through a factoring program. Outstanding factoring funds totaling between \$35 million and \$45 million are owed in March and April of 2019. As the Inspire Network is virtual, locations listed below are for the districts approving the charters.

<b>Borrower</b>	<b>Authorizer</b>	<b>Location</b>	<b>Purpose</b>	<b>Amount</b>
Inspire Charter School-Los Angeles	Acton-Agua Dulce School District	32248 Crown Valley Road Acton, CA. 93510	Working Capital	\$8,728,077
Inspire Charter School-Winship-Central	Westside Elementary School District	1781 East Fir Ave. Suite #101, Fresno, CA. 93720	Working Capital	\$4,391,039
Clarksville Charter School	Buckeye Union School District	5049 Robert J. Matthews Parkway, El Dorado Hills, CA. 95762	Working Capital	\$1,026,477
Pacific Coast Academy	Dehesa School District	353 East Park Ave. Suite 201, El Cajon, CA. 92020	Working Capital	\$8,953,157
Heartland Charter School	Maricopa Unified School District	5060 California Ave. #420 Bakersfield, CA 93309	Working Capital	\$4,847,251
<b>Total Estimated Project Costs</b>				<b>\$28,000,000</b>

## **II. Inspire Charter Schools**

According to information provided by the applicant / borrower, Inspire Charter Schools opened its first school in the fall of 2014 with a focus on providing families a personalized and flexible education. The school ended their first year with 250 students. Since then, the Personal Learning Model has gained traction within the home school environment and the family of schools has grown to nine charters currently serving nearly 19,000 students throughout the state. Those nine charters include: 1) Inspire Charter School – Los Angeles – Acton; 2) Inspire Charter School – North – Meridian; 3) Inspire Charter School – Winship-Central – Fresno; 4) Clarksville Charter School – El Dorado Hills; 5) Pacific Coast Academy – El Cajon; 6) Heartland Charter School – Bakersfield ; 7) Inspire Charter School – South – El Cajon; 8) Inspire Charter School – Kern – Duarte; and 9) Winship Community Charter School – Winship. Of the nine schools operated by Inspire, five are participating in the revenue note borrowing.

## **III. Financial Structure**

The Notes will be structured as a six month, taxable fixed rate note with interest paid upon maturity. They will be issued at the market interest rate for similar credit quality debt instruments. Estimated annual interest rate is expected to be between 4.50%-5.50%. Cost of issuance on the Notes is expected to be around 1.00%-2.00% of the par amount.

#### IV. Security and Source of Payment

The Notes will be secured by all available revenues of the Borrowers, including, but not limited to, federal, state, local, and extraordinary revenue sources. Such revenues are expected to be intercepted from the Borrowers' May and June apportionments. The Borrowers will be required by CSFA to utilize the State Controller's Intercept Mechanism to ensure that payments toward debt service associated with the underlying loan is paid to the Trustee directly by the State in the months scheduled under the terms of the loan agreement.

#### V. Preliminary Sources and Uses/Costs 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.

##### Sources and Uses

<b>Sources:</b>	<b>Series 2019 (Taxable)</b>	<b>Total</b>
<b>Bond Proceeds:</b>		
Par Amount	\$28,000,000	\$28,000,000
Premium	\$0.00	\$0.00
Equity/Other	\$0.00	\$0.00
<b>Total:</b>	<b>\$28,000,000</b>	<b>\$28,000,000</b>
<b>Uses:</b>	<b>Series 2019 (Taxable)</b>	<b>Total</b>
<b>Project Fund Deposits:</b>		
	\$27,432,800	\$27,432,800
<b>Other Fund Deposits:</b>		
Debt Service Reserve Fund		
<b>Delivery Date Expenses:</b>		
Cost of Issuance	\$287,200	\$287,200
Underwriter's Discount	\$280,000	\$280,000
	<b>\$567,200</b>	<b>\$567,200</b>
<b>Other Uses of Funds:</b>		
Contingency		
<b>Total:</b>	<b>\$28,000,000</b>	<b>\$28,000,000</b>

## Cost of Issuance

Expense	Amount
CSFA Issuance Fees	\$29,000.00
CSFA Admin Fees	\$4,200.00
Issuer's Counsel Fees	\$8,000.00
Agent-for-Sale Fees	\$8,000.00
Underwriter's Discount Fees	\$280,000.00
Bond Counsel Fees	\$100,000.00
Borrower's Counsel Fees	\$50,000.00
Underwriter Counsel Fees	\$60,000.00
Trustee Fees	\$3,000.00
Contingency Fees	\$25,000.00
<b>Total</b>	<b>\$567,200.00</b>

*\*Estimates based on a total Par Amount of \$28,000,000.00*

### VI. Borrower Financial Data

Each Borrower is a California nonprofit public benefit corporation formed to operate one or more charter schools. Each Borrower other than Heartland Charter School has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code.

### 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 (as applicable), has the full authority to enter into all documents which are valid and binding, etc.) will be delivered at closing.

### VIII. Note Sales Restrictions

Per Debt Issuance Guidelines adopted by the CSFA board, and given that the notes will be unrated, the following sales restrictions will apply to the Inspire Charter Schools financing: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

1. Notes will be in minimum denominations of \$100,000;
2. Notes will be privately placed or publicly offered initially to QIBs and AIs;
3. Initial note purchasers will be required to execute an Investor Letter;
4. Subsequent transfers of notes will be limited to QIBs and AIs;
5. Sales restrictions will be conspicuously noted on note and described in detail in offering materials, if any, as well as in the note 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. Note 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 19-04 Authorizing the Issuance of Revenue Notes in an Amount Not to Exceed \$28,000,000 for Working Capital for Inspire Charter Schools – Los Angeles, Inspire Charter Schools – Winship-Central, Clarksville Charter School, Pacific Coast Academy formerly d/b/a Learning Latitudes Charter School, and Heartland Charter School.

## Exhibit A

### Inspire Projected ADA, RNs as % of Funds Available & Repayment Schedule

#### Inspire Charter Schools - RAN Group

##### Projected ADA

Revised 1/23/19

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	LP1	LP2	LP3	LP4	LP5	LP6	LP7	LP8
Attendance Date:	8/3/18	9/7/18	10/5/18	11/2/18	12/14/18	12/14/18	2/1/19	3/1/19
Central	1,720	1,780	1,878	1,937	1,985	1,985	1,985	1,985
Clarksville	915	870	902	905	912	912	912	912
Heartland	2,978	2,909	3,038	3,134	3,157	3,157	3,157	3,157
LA	4,623	4,319	4,479	4,638	4,681	4,681	4,681	4,681
PCA	2,923	2,758	3,013	3,465	3,854	3,854	3,854	3,854
Total Enrollment	13,159	12,636	13,310	14,079	14,589	14,589	14,589	14,589
Change *		(523)	674	769	510	-	-	-
Total LP ADA	12,743	12,268	12,832	13,568	14,039	14,039	14,039	14,039
Attendance Rate	96.8%	97.1%	96.4%	96.4%	96.2%	96.2%	96.2%	96.2%

\* NOTE: The reduction from LP1 To LP2 was due to summer school

**Projected ADA 13,446**

#### Inspire Charter Schools - RAN Group

##### Calculation of RANs as a % of Funds Available

Revised 1/23/19

	RAN Amount	March - July (Feb-Jun appor.) LCFF and EPA			
		LCFF/EPA Available	Funds Sold to CSC	Net LCFF and EPA Available	Note as a % of Available Funds
Central	3,896,939	10,873,629	(5,633,400)	5,240,229	74.4%
Heartland	4,358,418	12,254,037	(6,158,900)	6,095,137	71.5%
Los Angeles	7,896,429	22,522,731	(7,750,900)	14,771,831	53.5%
Pacific Coast	8,050,255	24,812,664	(12,184,700)	12,627,964	63.7%
Clarksville	922,959	2,649,648	(1,244,900)	1,404,748	65.7%
Total	25,125,000	73,112,710	(32,972,800)	40,139,910	62.6%

#### Inspire Charter Schools - RAN Group

##### Schedule of Issuance and Repayment

Revised 1/23/19

	RAN Amount	June Repayment (May Appor.)		July Repayment (June Appor.)		
		LCFF/EPA Available	Principal	LCFF/EPA Available	Principal	Interest
Central	3,896,939	2,150,253	2,140,000	2,099,103	1,756,939	84,953
Heartland	4,358,418	2,395,717	2,385,000	2,411,455	1,973,418	95,014
Los Angeles	7,896,429	4,683,832	4,670,000	3,551,541	3,226,429	172,142
Pacific Coast	8,050,255	4,730,050	4,720,000	5,484,528	3,330,255	175,636
Clarksville	922,959	531,678	520,000	462,622	402,959	20,121
Total	25,125,000	14,491,530	14,435,000	14,009,249	10,690,000	547,865