

\$35,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)
CHARTER SCHOOL REVENUE BONDS
(REAL JOURNEY ACADEMIES)
SERIES 2019A \$33,000,000 (TAX-EXEMPT) AND 2019B \$2,000,000 (TAXABLE)
ITEM #4 - RESOLUTION 19-27

*Not-to-Exceed Amount

STAFF REPORT

EXECUTIVE SUMMARY

Applicant/Borrower:	REAL Journey Academies Foundation, Inc.	Par Amount Requested:	Not-to-Exceed *\$35,000,000
Financing Term: 38 years (Tax Exempt), Three years (Taxable)		Interest Rate: 4.75% (Estimated)	
Estimated Source of Funds: Tax Exempt Bonds (Series 2019 A): \$33,000,000* Taxable Bonds (Series 2019 B): \$2,000,000 *Not-to-Exceed		Estimated Use of Funds: Finance the acquisition of the facility currently leased by REAL Journey Academies.	
Applicant Description: REAL Journey Academies Foundation, Inc. is a 501(c)3 organization, and is separate from the applicant schools formed exclusively to support REAL Journey Academies.			
Type of Financing: Charter School Revenue Bonds (Tax-Exempt & Taxable Series)			
Project Users:	Entrepreneur High School & New Vision Middle School	County Served:	San Bernardino
District in Which Project is Located:	San Bernardino City Unified School District	Charter Authorizer:	San Bernardino City Unified School District
Project Description: Facility acquisition; additional facility improvements; reimbursements.			
Potential Project Sites: 26655 Highland Ave., Highland, CA 92346			
Plan of Finance: \$27,457,725 for Project Costs (including capitalized interest and costs of issuance), and funding for a Debt Service Reserve Fund of approximately \$1,662,750.			
Type of Issue:	Charter School Revenue Bonds		
Tax Status:	Tax-Exempt and Taxable		
Maturity:	June 1, 2058 (Tax-Exempt); June 1, 2022 (Taxable)		
Credit Enhancement:	No		
Credit Rating:	Unrated		
CSFA Fees:	\$24,075 Issuance Fee		
Other Fees:	See Costs of Issuance Table		

Estimated Sources of Funds		Estimated Use of Funds	
Tax Exempt Bond Proceeds	\$27,500,000	Acquisition Costs	\$24,250,000
Taxable Bond Proceeds	\$650,000	City Reimbursements	\$1,050,000
Premium	\$970,475	Phase II Capital Needs	\$1,000,000
Total	\$29,120,475	Debt Service Reserve Fund	\$1,662,750
Financing Team:		Cost of Issuance	\$520,575
Bond Counsel:	Kutak Rock LLP	Underwriter's Discount	\$633,375
Underwriter:	Stifel, Nicolaus & Company	Contingency	\$3,775
Underwriter's Counsel:	Stradling Yocca Carlson & Rauth PC	Total	\$29,120,475
Financial Advisor:			
Issuer's Counsel:	Attorney General's Office		
Issuer:	California School Finance Authority		
Master Trustee:	Wilmington Trust		
Agent for Sale:	State Treasurer's Office		
Public Benefits: By lowering the cost of borrowing for Entrepreneur High School and New Vision Middle School, resources otherwise spent on outstanding and future financial obligations can instead be used in the classroom.			
CSFA Staff: Robby Biegler and Jose Franco		Date of Staff Report: September 11, 2019	
Date of CSFA Board Meeting: September 18, 2019		Resolution Number: 19-27	
Support for Staff Recommendation:			
<ol style="list-style-type: none"> 1. Real Journey Academies has the present and prospective revenues to pay the proposed debt service. 2. The acquisition of the location of the property at 26655 Highland Ave., currently being leased by the applicant, is a reasonable decision for RJA, and one that was part of the original lease. 			
Staff Recommendation: Staff recommends the CSFA's Board to approve Resolution Number 19-27 Authorizing the Issuance of Charter School Revenue Bonds in an Amount Not to Exceed \$35,000,000 to Finance and Refinance the Acquisition, Construction, Renovation, Furnishing, and Equipping of certain Educational Facilities located in San Bernardino County for Entrepreneur High School and New Vision Middle School.			

BACKGROUND AND HISTORY

REAL Journey Academies Inc. (RJA) is a charter management organization currently operating four schools in the Inland Empire. New Vision Middle School was the first campus established by RJA, opening in 2009, and serving grades 6-8. Subsequently RJA opened iEmpre Academy, a TK-5 school, as a feeder for the middle school. In 2018 Entrepreneur High School was opened, currently serving grades 9-10, with the expectation of serving grades 9-12 by the 2021-22 school year. Also in 2018, RJA opened The Journey School, a TK-6 campus. The Journey School is located in Moreno Valley and their charter is approved by the Riverside County Office of Education. iEmpire Academy is located in San Bernardino and their charter was approved by the San Bernardino City Unified School District.

New Vision Middle School (NVMS) and Entrepreneur High School (EHS) are the network’s middle and high schools. These campuses are located in Highland and their charters have been approved by the San Bernardino City Unified School District. Charter terms and authorizers and current enrollments for all campuses are:

<i>School</i>	<i>School Year Established</i>	<i>Grades Served (2019-20)</i>	<i>Enrollment (2019-20)</i>	<i>Projected Full Enrollment</i>	<i>No. of Charter Renewals</i>	<i>Charter Expiration</i>	<i>Authorizer</i>
New Vision Middle School	2009-10	6-8	430	451	2	6/30/2024	SBCUSD
Entrepreneur High School	2018-19	9-10 ⁽¹⁾	401		--	6/30/2022	SBCUSD
<i>Subtotal – Obligated Group</i>			<i>831</i>				
iEmpire Academy	2010-11	TK-5	417		2	6/30/2024	SBCUSD
The Journey School	2018-19	TK-6	533		--	6/30/2023	RCOE
<i>Total Network</i>			<i>1,781</i>				

⁽¹⁾ Expected to expand to grades 9-12 by the 2021-22 school year.

The REAL Journey Academies were co-founded by Alex Lucero and Jason Roberts, alumni of the Educational Leadership & Policy Studies Masters at Northridge, as well as former employees of the Partnership to Uplift Communities (PUC) network of schools. At PUC Mr. Lucero was the New Schools Manager and Mr. Roberts was Director of Operations. Messrs. Lucero and Roberts, identifying a need for education options in the Inland Empire, decided to use their academic background and institutional knowledge to start a new network of schools.

Of the students attending RJA schools, 84% are classified as economically disadvantaged, 60% of students live in a single parent home, with 68% of that population holding a high school diploma, and 10% of students have a parent in prison. Approximately 71% of RJA’s students during the 2018-19 school year qualified for free and reduced priced meals, approximately 95% were minorities (non-white), and approximately 16% qualified as English language learner students.

NETWORK DEMOGRAPHICS
2018-19
REAL Journey Academies

% of Free-Reduced Price Meals	70.5%
% of Minority Students (Non-White)	94.9
% of English-Language Learners	16.3

Source: RJA.

NVMS has struggled some with test scores and absenteeism. To remedy this they recently hired a new Chief Academic Officer, a former Chicago Public Schools Superintendent; a Superintendent of Public Instruction who has worked as teacher, principal and administrator in the San Bernardino City Unified Schools District (SBCUSD) for three decades; and an Assistant Superintendent of Instruction who was previously Chief Academic Officer at ICEF Schools. Additionally enrollment remains consistent and the school has a good working relationship with SBCUSD.

Board Members and Executive Staff for RJA are included as Exhibit A. Enrollment projections for the New Vision Middle and Entrepreneur High campuses for the next six years are included in Exhibit B.

PROJECT DESCRIPTION

The proceeds of the Bonds will be used to 1) finance the acquisition, pre-development and improvement costs of certain educational facilities (Facility) located at 26655 Highland Avenue, Highland, CA, 2) reimburse the city of San Bernardino for certain improvements 3) fund a debt service reserve; 4) fund a capitalized interest account, and 5) pay cost of issuance.

Site	Landlord	Location	Purpose	Amount
NVMS and EHS	REAL Journey Properties LLC	26655 Highland Ave., Highland, CA 92346	Acquisition	\$24,250,000
NVMS and EHS	n/a	26655 Highland Ave., Highland, CA 92346	City Reimbursements	\$1,050,000
NVMS and EHS	REAL Journey Properties LLC	26655 Highland Ave., Highland, CA 92346	Improvements	\$1,000,000
Total Estimated Project Costs				\$26,300,000

Approximately \$24,250,000 of bond proceeds will be used to finance the acquisition of the charter school facility located at 26655 Highland Ave. in Highland, CA. An additional \$1,050,000 of the proceeds will be used to reimburse the City of San Bernardino (City) for certain improvements to the purchased Facility previously made by the City. Lastly an additional \$1,000,000 of the proceeds will be used to finance additional improvements to the Facility.

The Facility is an approximately 9.74 acre site initially acquired by Red Hook Capital Partners (Seller) in August of 2017 at a cost of \$3.8 million. At that time the Seller renovated an existing Kmart, at a total construction cost of \$16,274,490. The 108,000 square foot facility now serves as the main campus for both New Vision Middle School and Entrepreneur High School. The facility includes: 40 classrooms; Gym and cafeteria; a presentation hall; a training center; 3 workrooms; an atrium/lobby (indoor common area with built-in seating); and 298 parking spaces (270 reserved for EHS, 28 reserved for NVMS).

RJA entered into a turn-key development agreement with Red Hook Capital Partners for the facility. Red Hook Capital Partners is a real estate development firm that works exclusively with charter schools. They identify and develop sites for schools under turn-key lease arrangements. They are funded by private investors who expect repayment within five years. Red Hook fronts all the development costs, including land acquisition, permitting, and construction, and own the facility at the outset. Their typical lease escalates in rent each year by 3%, and they offer a purchase option after three years, though sometimes the option is offered earlier.

RJA entered into their lease with Red Hook with the intent of exercising the purchase option in the lease. RJA is buying out the lease earlier than anticipated given interest rate lows. REAL Journey Academies Foundation, Inc. (Foundation) is a 501(c)3 organization separate from the schools formed exclusive to support REAL Journey Academies. The Foundation will be the sole member of the REAL Journey Properties LLC (the lessor) that will lease the facility to REAL Journey Academies to operate both Entrepreneur High School and New Vision Middle School.

FINANCING STRUCTURE

REAL Journey Academies

Board Meeting Date: September 18, 2019

Loan Amount:	Not-to-Exceed \$35,000,000
Type of Offering:	Public Sale
Underwriter:	Stifel, Nicolaus & Company
Confirmed Credit Rating:	Unrated
Interest:	Estimated at 4.75%*
Maturity:	June 1, 2058 (Tax Exempt); June 1, 2022 (Taxable)
Collateral:	Lease Payments and a Deed of Trust on Real Property
Closing Date:	October 24, 2019*
Conduit Transaction:	The Bonds are special, limited obligations payable solely from payments made by the Borrower under the transaction documents and CSFA shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of CSFA for all or any portion of payment to be made pursuant to the Bonds.

* Please note that Interest Rate and Closing Date are subject to change.

The Bonds will be issued in two series: (1) Series 2019A (tax-exempt) will be approximately \$33,000,000 and (2) Series 2019B (taxable) will be approximately \$2,000,000. The tax- exempt series will be issued to finance items eligible for use of tax-exempt bond proceeds. The taxable series will be

used to finance the costs of issuance in excess of 2% of the tax-exempt series. The tax-exempt series is expected to consist of three term bonds maturing on June 1, 2030, June 1, 2040, and June 1, 2058. The taxable series is expected to be issued as one term bond, maturing on June 1, 2022.

The facilities financed with proceeds of the Bonds will be leased to a nonprofit public benefit corporation, pursuant to certain leases by and between the lessee and the landlord. The Facilities will be used by the lessee to operate Entrepreneur High School and New Vision Middle School.

Security and Source of Payment

The Bonds will be payable out of 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 additional security and in connection with the issuance of the Bonds, the Lessee will provide instructions to the State Controller's Office to make an apportionment to the Trustee with respect to the Entrepreneur High School and New Vision Middle School in the amounts and on the dates provided in a written notice sufficient in the aggregate to repay the Bonds and pay necessary and incidental costs. Funds received by the Trustee pursuant to such Intercept 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 the laws of the State of California, no party, including the Lessee, the Borrower or any of their respective creditors will have any claim to the money apportioned or to be apportioned to the Trustee by the SCO pursuant to the Intercept.

Preliminary Sources and Uses and Preliminary 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 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 and Uses

Sources:	Series 2019A (Tax-Exempt)	Series 2019B (Taxable)	Total
Bond Proceeds:			
Par Amount	\$27,500,000	\$650,000	\$28,150,000
Premium	\$970,475	\$0.00	\$970,475
Total:	\$28,470,475	\$650,000	\$29,120,475
Uses:	Series 2019A (Tax-Exempt)	Series 2019B (Taxable)	Total
Project Fund Deposits:			
Acquisition Cost	\$24,250,000	\$0.00	\$24,250,000
City Reimbursements	\$1,050,000	\$0.00	\$1,050,000
Phase II Capital Needs	\$1,000,000	\$0.00	\$1,000,000
	\$26,300,000	\$0.00	\$26,300,000
Other Fund Deposits:			
Debt Service Reserve Fund	\$1,624,356	\$38,394	\$1,662,750
Delivery Date Expenses:			
Cost of Issuance	\$245,863	\$274,712	\$520,575
Underwriter's Discount	\$299,137	\$334,238	\$633,375
	\$545,000	\$608,950	\$1,153,950
Other Uses of Funds:			
Additional Proceeds	\$1,119	\$2,656	\$3,775
Total:	\$28,470,475	\$650,000	\$29,120,475

Costs of Issuance

Expense	Amount
CSFA Issuance Fees	\$24,075
Issuer Application Fee	\$1,500
CSFA Admin Fees	\$4,222
Issuer's Counsel Fees	\$6,000
Agent-for-Sale Fees	\$6,000
CDIAC Fee	\$4,250
Underwriter's/Disclosure Counsel Fees	\$85,000
Bond Counsel Fees	\$150,000
Borrower's Counsel Fees	\$150,000
Trustee & Trustee's Counsel Fees	\$11,000
Title Insurance	\$50,000
Financial Printer Fee	\$5,000
Appraisal Fees	\$7,000
Contingency Fees	\$15,528
Dissemination Agent Fee	\$1,000
Total	\$520,575

**Estimates based on a total Par Amount of \$35,000,000.00*

PUBLIC BENEFITS

By lowering the cost of borrowing for REAL Journey Academies, resources otherwise spent on outstanding and future financial obligations instead be used in the classroom.

SALES RESTRICTIONS

The following sales restrictions will apply to the financing given the expected non-rating. The Authority's sales restrictions can be viewed at: <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 Qualified Institutional Buyers (QIBs) and Accredited Investors (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

OTHER PROJECT DATA

Permits and Approvals

All required approvals have been obtained.

TEFRA

Date of TEFRA Publication: September 11, 2019
Publications: CSFA Website
Date of TEFRA Hearing: September 18, 2019
Oral/Written Comments: None anticipated, will provide update to the Board if any are received.

Eligibility Review

Applicant meets all of CSFA's eligibility criteria.

1. Project is a charter school in the State of California.
2. Based on a review of the information provided by the applicant, the Borrower is capable of meeting the obligations of the relevant financing agreements.
3. The Borrower and Financing Agreements have been vetted and meet all legal requirements.
4. Payments made by the Borrower to CSFA under the financing agreements are adequate to pay CSFA expenses connected to the financing and to make all scheduled proposed payments.
5. The proposed financing is appropriate for the project.

Borrower Financial Data

The Borrower is a California nonprofit public benefit corporation formed as a support organization for charter schools formed and controlled by. The sole managing member of the Borrower has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code.

The limited liability company of which the Borrower is the sole member is a single purpose entity with no assets other than the applicable Facility and its rights under the Lease, which will be assigned to the Trustee. The limited liability company was formed for the purpose of holding the Facility and are not expected to have any other assets or revenue available to it to make payments due under the Loan Agreement. Attached at Exhibit B is a schedule of RJA's five-year budget and its 2019-20 Financial Position.

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 disregarded subsidiary of 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.

STAFF RECOMMENDATION

Staff recommends CSFA approve Resolution Number 19-23 Authorizing the Issuance of Educational Facilities Revenue Bonds in an Amount Not to Exceed \$35,000,000 to Finance and Refinance the Acquisition, Construction, Renovation, Furnishing, and Equipping of certain Educational Facilities Located in San Bernardino County, California for REAL Journey Academies.

1. **Applicant / Borrower:** REAL Journey Academies Foundation, Inc.
2. **Project:** Acquisition and Improvements
3. **Amount of Financing:** not to exceed \$35,000,000
4. **Maturity:** June 1, 2058 (Tax-Exempt); June 1, 2022 (Taxable)
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** Estimated to be 4.75%
7. **Fees:** \$1,153,950 is the total Cost of Issuance
8. **Not an Unconditional Commitment:** The CSFA resolution shall not be construed as unconditional commitment to finance the Project, but rather CSFA's approval pursuant to the resolution conditioned upon entry by CSFA and the Borrower into a financing agreement, in form and substance satisfactory to CSFA and its counsel.
9. **Limited Time:** The Board's approval expires 12 months from the date of its adoption. Thus, CSFA and REAL Journey Academies must enter into the financing agreement no later than 12 months from such date. Once the approval has expired, the item must return to the Board for new approval.
10. **Financing Agreement Covenants:** N/A

APPENDIX A: GOVERNANCE AND MANAGEMENT

Board of Directors

Diana S. Rodriguez	Board President	San Bernardino Valley College
Javier Hernandez	Vice President	UC Riverside/UC San Diego
Dr. Audrey Matthews	Treasurer	Cal State San Bernardino
Jack D. Rubensaal	Board Member	West Los Angeles College
Dr. Reyes Quesada	Board Member	University of San Diego

Officers

Alex Lucero	Co-Founder & Chief Executive Officer
Jason Roberts	Co-Founder & Chief of Staff
Randel Josserand	Chief Academic Officer
Dr. Christopher Tickell	Superintendent of Instruction
Jacqueline Woods-Jefferson	Assistant Superintendent of Instruction
Dr. Jason Jay Jimenez	Chief Finance Officer
Jamie Serrano	Chief Operations Officer

APPENDIX B: FINANCIAL PROJECTIONS AND ENROLLMENT

	Estimated 2018-19	Projected 2019-20	Projected 2020-21	Projected 2021-22	Projected 2022-23	Projected 2023-24
Enrollment						
Grades Served	6-9	6-10	6-11	6-12	6-12	6-12
Enrollment	588	831	1,050	1,263	1,275	1,275
ADA %	93%	89%	91%	93%	93%	93%
Average Daily Attendance ("ADA")	548.1	743.5	957.8	1,175.1	1,186.5	1,186.5
Revenue						
State Aid - Revenue Limit	\$ 5,787,574	\$ 8,518,168	\$ 11,545,173	\$ 14,785,706	\$ 14,900,741	\$ 14,901,751
Other State Revenue	592,770	742,586	924,729	1,107,378	1,121,031	1,121,031
Federal Revenue	1,610,986	1,056,707	1,174,725	1,145,361	1,242,179	1,246,965
School Facilities (SB740)	626,939	743,460	957,750	1,175,100	1,186,500	1,186,500
Other Local Revenue	280,841	-	-	-	-	-
Total Income	\$ 8,899,111	\$ 11,060,921	\$ 14,602,377	\$ 18,213,545	\$ 18,450,451	\$ 18,456,247
Expenses						
Certificated Salaries	\$ 2,441,047	\$ 3,161,128	\$ 3,759,962	\$ 4,425,234	\$ 4,549,135	\$ 4,676,509
Classified Salaries	1,733,837	1,361,768	1,402,454	1,441,719	1,482,060	1,523,491
Employee Benefits	1,045,576	1,408,129	1,519,755	1,763,446	1,795,198	1,827,836
Books & Supplies	1,460,709	1,472,904	1,707,216	1,942,139	1,996,519	2,052,422
Subagreement Services	67,158	52,553	69,895	87,369	89,815	92,330
Operations and Housekeeping Services	284,897	311,084	369,941	429,042	441,056	453,406
Other Services & Operations	1,273,996	1,301,855	1,548,807	1,798,684	1,846,054	1,893,581
Depreciation	-	-	-	-	-	-
Other Direct & Indirect Expenses	155,587	39,289	17,983	1,082	-	-
Rentals, Leases, Repairs & Noncapitalized Improvements	1,257,069	533,704	-	-	-	-
Rent, Parking & Other Occupancy	68,936	75,212	-	-	-	-
Base Rent (Bond Payments)	-	1,000,369	1,662,500	1,658,200	1,658,500	1,659,250
Total Expenses	\$ 9,788,812	\$ 10,717,995	\$ 12,058,513	\$ 13,546,915	\$ 13,858,337	\$ 14,178,825
Net Income	\$ (889,701)	\$ 342,926	\$ 2,543,864	\$ 4,666,630	\$ 4,592,114	\$ 4,277,422
Add Back: Depreciation	-	-	-	-	-	-
Add Back: Base Rent	1,326,005	1,609,285	1,662,500	1,658,200	1,658,500	1,659,250
Net Operating School Revenue	\$ 436,304	\$ 1,952,211	\$ 4,206,364	\$ 6,324,830	\$ 6,250,614	\$ 5,936,672
Base Rent Coverage Ratio	0.33x	1.21x	2.53x	3.81x	3.77x	3.58x

	Historical			Latest	Projected					
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	
<i>New Vision Middle School</i>										
Grade 6	57	62	68	106	112	125	138	150	150	
Grade 7	132	117	106	138	144	150	150	150	150	
Grade 8	125	136	129	126	150	150	150	150	150	
Total	314	315	303	370	406	425	438	450	450	
<i>Entrepreneur High School</i>										
Grade 9				218	225	225	225	225	225	
Grade 10					200	200	200	200	200	
Grade 11						200	200	200	200	
Grade 12							200	200	200	
Total	0	0	0	218	425	625	825	825	825	
<i>Combined</i>										
Total	314	315	303	588	831	1,050	1,263	1,275	1,275	

Historical & Current Source: California Department of Education. DataQuest.

Projected Source: RJA.