

\$25,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)
CHARTER SCHOOL REVENUE BONDS
(ALTA PUBLIC SCHOOLS)
SERIES 2019A \$23,000,000 (TAX-EXEMPT) AND 2019B \$2,000,000 (TAXABLE)
ITEM #6 - RESOLUTION 19-29

*Not-to-Exceed Amount

STAFF REPORT

EXECUTIVE SUMMARY

Applicant/Borrower:	Alta Public Schools Foundation	Par Amount Requested:	Not-to-Exceed* \$25,000,000
Financing Term: 39 years (Tax Exempt), 7 years (Taxable)		Interest Rate: 5.50% (Estimated)	
Estimated Source of Funds: Tax Exempt Bonds (Series 2019 A): \$23,000,000* Taxable Bonds (Series 2019 B): \$2,000,000 *Not-to_ Exceed		Estimated Use of Funds: Finance the construction of a permanent facility for Prepa Tec Middle School; Refinance an Umpqua Bank Line of Credit (LOC) that was used to acquire two adjacent parcels at 8001 San Fe Ave., Huntington Park.	
Applicant Description: Alta Public Schools Foundation is a California non-profit public benefit corporation; PTMS LLC (landlord), is a California limited liability company. The sole member of PTMS LLC is Alta Public Schools Foundation, a California 501c3.			
Type of Financing: Charter School Revenue Bonds (Tax-Exempt & Taxable Series)			
Project Users:	Prepa Tec Middle School	County Served:	Los Angeles
District in Which Project is Located:	Los Angeles Unified School District	Charter Authorizer:	Los Angeles Unified School District
Project Description: Acquisition, construction, and renovation of a school facility and refinancing of its existing Line of Credit.			
Potential Project Sites: 8001 Santa Fe Ave., Huntington Park, CA 90255			
<p>Plan of Finance: \$25,000,000 for Project Costs (including capitalized interest and costs of issuance), repayment of a portion of a line of credit, and funding for a Debt Service Reserve Fund of approximately \$1,451,050.</p> <p>Type of Issue: Charter School Revenue Bonds Tax Status: Tax-Exempt and Taxable Maturity: November 1, 2058 (Tax-Exempt); November 1, 2022 (Taxable)</p> <p>Credit Enhancement: No Credit Rating: Unrated CSFA Fees: \$20,050 Issuance Fee Other Fees: See Costs of Issuance Table</p>			

Estimated Sources of Funds		Estimated Use of Funds	
Tax Exempt Bond Proceeds	\$18,990,000	Construction & Development	\$15,019,019
Taxable Bond Proceeds	\$1,110,000	Payoff Line of Credit	\$1,105,871
Premium	\$0	Capitalized Interest	\$1,189,678
Total	\$20,100,000	Debt Service Reserve Fund	\$1,451,050
Financing Team:		Cost of Issuance	\$775,065
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP	Underwriter's Discount	\$552,750
Underwriter:	Stifel, Nicolaus & Company LLP	Additional Proceeds	\$6,567
Underwriter's Counsel:	Stradling Yocca Carlson & Rauth P.C.	Total	\$20,100,000
Financial Advisor:	Urban Futures, Inc.		
Issuer's Counsel:	Attorney General's Office		
Issuer:	California School Finance Authority		
Master Trustee:	U.S. Bank		
Agent for Sale:	State Treasurer's Office		
Public Benefits: By lowering the cost of borrowing for Prepa Tec Middle School through the issuance of tax-exempt bonds, resources otherwise spent on outstanding and future financial obligations may instead be used for students and other classroom expenses.			
CSFA Staff: Robby Biegler and Jose Franco		Date of Staff Report: September 11, 2019	
Date of CSFA Board Meeting: September 18, 2019		Resolution Number: 19-29	
Support for Staff Recommendation:			
<ol style="list-style-type: none"> Alta affiliated schools have successfully issued bonds previously through CSFA. Based on information provided by the applicant, Prepa Tec Middle School has the present and prospective revenues to pay the proposed debt service. 			
Staff Recommendation: Staff recommends CSFA's Board approve Resolution Number 19-29 authorizing the issuance of charter school revenue bonds in an amount not to exceed \$25,000,000 to finance and refinance the acquisition, construction, renovation, furnishing, and equipping of certain educational facilities located in Los Angeles County, California for Prepa Tec Middle School.			

BACKGROUND AND HISTORY

Alta Public Schools (APS) was established in 2009 and opened its first school in that same year, Academia Moderna, in the South Los Angeles neighborhood of Walnut Park. Academia Moderna is K-6 and currently serves 471 students; their most recent charter was renewed by LAUSD in 2019, which expires in June 2024. Since the opening of Academia Moderna, Alta has opened two additional schools, Prepa Tec Middle School (PTMS), in Huntington Park, opened in 2013, and Prepa Tec High School, opened in 2016, also located in Huntington Park.

Prepa Tec Middle School currently serves 380 students in two separate, temporary, privately-leased facilities. The proposed financing would provide PTMS with a permanent facility. The high school opened in 2016 exclusively serving ninth grade students, opening a grade per year, with 2019-20 serving as the first year operating as a 9-12. Charter terms for Prepa Tec Middle and the other Alta Public Schools are below.

<i>School</i>	<i>School Year Established</i>	<i>Grades Served</i>	<i>Charter Renewed⁽¹⁾</i>	<i>Charter Expiration</i>	<i>Charter Authorizer</i>
<u>THE SCHOOL</u>					
Prepa Tec Middle School	2013-14	6-8	12/5/2017	6/30/2023	Los Angeles Unified School District
<u>OTHER NETWORK SCHOOLS</u>					
Academia Moderna	2009-10	K-5	1/8/2019	6/30/2024	Los Angeles Unified School District
Prepa Tec High School	2016-17	9-11 ⁽²⁾	N/A	6/30/2021	California State Board of Education

⁽¹⁾ Most recent renewal of charter.

⁽²⁾ Prepa Tec High School opened for the 2016-17 school year offering solely grade 9. It has grown by one grade each year and expects to offer grades 9-12 starting in school year 2019-20.

This is the second bond issuance for the benefits of APS; in 2014 CSFA issued \$7,600,000 in bonds to acquire and improve the Academia Moderna campus, located at 2410 Broadway Ave, Walnut Park. As of last month \$430,000 of those bonds have been repaid, with \$7,170,000 outstanding. The final maturation of those bonds is November 1st, 2045.

Alta had previously applied for bond financing for development on the Prepa Tec Middle School campus in September of 2018, and had a TEFRA approval that lasted through the early part of this month. The financing never materialized owed to issues of project costs that have since been resolved, of which this application is the end result.

Los Angeles Unified School District (LAUSD) has been monitoring Academia Moderna and Prepa Tec for financial challenges the schools have faced in recent years. Alta has worked with LAUSD on a corrective action plan and LAUSD currently find the schools in good standing but continues to monitor and work with the campuses on their financials.

Board Members of Alta Public Schools and Executive Staff for Prepa Tec Middle School are included as Exhibit A. Enrollment projections for Prepa Tec for the next six years are included in Exhibit B.

PROJECT DESCRIPTION

The proceeds of the Bonds will be used to 1) finance the construction, improvement, furnishing and equipping costs of certain educational facilities located at 8001 Santa Fe Avenue in Los Angeles, CA, 2) repay a portion of an existing Line of Credit with Umpqua Bank, 3) fund a debt service reserve; 4) fund a capitalize interest account, and 5) pay cost of issuance.

Site	Landlord	Location	Purpose	Amount
Prepa Tech Middle School (Facility)	PTMS LLC	8001 Santa Fe Avenue, Los Angeles	New Construction	\$15,019,019
Prepa Tech Middle School (Land/Loan Repayment)	APSF	8001 Santa Fe Avenue, Los Angeles	Refinancing	\$1,105,871
Prepa Tech Middle School	PTMS LLC	8001 Santa Fe Avenue, Los Angeles	Capitalized Interest	\$1,189,678
Total Estimated Project Costs				\$17,314,568

Proceeds from the Bonds will be used to finance the construction, improvement, furnishing and equipping costs at 8001 Santa Fe Avenue (the Facility). The Facility is located on a 0.514 parcel of land and consists of a 29,872 square foot, three story building. The Facility comprises twenty one classrooms (including science and art labs). There will be a cafeteria and library on the second and third floors, as well as offices and parking, and a student pick-up and drop-off area on the first floor. The project will additionally include three rooftop decks of an accumulated 13,717 square feet, for recreation and physical education, bringing square footage totals to 45,394 square feet. When complete the Facility will accommodate approximately 486 students in grades 6-8 and related faculty and administrative staff. In the meantime the school will continue to operate at the existing Prepa Tec Middle locations.

The bonds will also be used to repay a \$1,105,871 Umpqua line of credit Alta Public Schools undertook to pay for the cost of acquisition and certain preliminary construction costs prior to bond issuance.

Academia Moderna Prepa Tec LLC is a limited liability company organized and existing under California law, formed on December 26, 2013 to purchase the 2014 Facility using the proceeds of the 2014 Bonds. Alta Public Schools is the sole member of AMPT LLC. PTMS LLC (the "Landlord") has been formed to be Landlord for the 2019 Bonds, with Alta Public Schools Foundation (the "Borrower") as its sole member. Alta Public Schools Foundation is a California nonprofit public benefit corporation and 501(c)(3) entity.

FINANCING STRUCTURE

Prepa Tech Middle School

Board Meeting Date: September 18, 2019

Loan Amount:	Not-to-Exceed \$25,000,000
Type of Offering:	Public Sale
Underwriter:	Stifel, Nicolaus & Company
Confirmed Credit Rating:	Unrated
Interest:	Estimated at 5.50%*
Maturity:	November 1, 2058 (Tax Exempt); November 1, 2026 (Taxable)
Collateral:	Lease Payments and a Deed of Trust on Real Property
Estimated Closing Date:	November 1, 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 \$23,000,000 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 November 1, 2030, November 1, 2040, and November 1, 2058. The taxable series is expected to be issued as one term bond, maturing on November 1, 2026.

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 Prepa Tech Middle School, which is managed by the Alta Public Schools.

Security and Source of Payment

The Bonds will be payable through an intercept pursuant to California Education Code Section 17199.4(a) of funds allocated to the Charter School and a pledge of the gross revenues of the Borrower. In connection with the issuance of the Bonds, Alta Public Schools will enter into a ground lease with PTMS LLC for a term significantly longer than the maturity date of the Bonds pursuant to which PTMS LLC will lease the land upon which the charter school facility will be constructed by and at the expense of PTMS LLC. PTMS LLC, as owner of the newly constructed tenant improvements, will in turn lease

the financed facility back to Alta Public Schools for use and occupancy by Prepa Tec Middle School. As additional security for the Bonds, the fee interest in the property will be subject to a deed of trust from Alta Public Schools, as fee owner and ground lessor, and the leasehold interest of PMTS LLC, as owner of the financed facility, sub-landlord and ground lessee will be subject to a leasehold deed of trust. Upon initial issuance of the Bonds, no other revenues, nor any interest in other facilities, will be pledged or available to repay the Bonds.

As additional security and in connection with the issuance of the Bonds, the Lessee, APS, will provide instructions to the State Controller's Office (SCO) to make an apportionment to the Trustee, APSF, with respect to Prepa Tec 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. Board 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	\$18,990,000	\$1,110,000	\$20,100,000
Premium	\$0.00	\$0.00	\$0.00
Total:	\$18,990,000	\$1,110,000	\$20,100,000
Uses:	Series 2019A (Tax-Exempt)	Series 2019B (Taxable)	Total
Project Fund Deposits:			
Umpqua LOC Repayment	1,105,871	\$0.00	\$1,105,871
Project Fund – Prepa Tec MS	\$15,019,019	\$0.00	\$15,019,019
Capitalized Interest	\$1,116,114	\$73,564	\$1,189,678
	\$16,241,004	\$73,564	\$17,314,568
Other Fund Deposits:			
Debt Service Reserve Fund	\$1,370,917	\$80,133	\$1,451,050
Delivery Date Expenses:			
Cost of Issuance	\$218,776	\$556,289	\$775,065
Underwriter's Discount	\$156,024	\$396,726	\$552,750
	\$374,800	\$953,015	\$1,327,815
Other Uses of Funds:			
Additional Proceeds	\$3,279	\$3,289	\$6,567
Total:	\$18,990,000	\$1,110,000	\$20,100,000

Costs of Issuance

Expense	Amount
CSFA Issuance Fees	\$20,050
CSFA Admin Fees	\$3,015
Issuer's Counsel Fees	\$8,000
Agent-for-Sale Fees	\$6,000
CDIAC Fee	\$4,250
Financial Advisor Fee (Urban Futures)	\$98,500
Underwriter's/Disclosure Counsel Fees (Stradling)	\$150,000
Bond Counsel Fees (Orrick)	\$175,000
Borrower's Counsel Fees	\$197,000
Special Counsel Fees (Ogletree)	\$15,000
Trustee & Trustee's Counsel Fees	\$8,000
Title Insurance	\$25,000
Financial Printer Fee & Roadshow	\$5,000
Appraisal Fees	\$14,500
Contingency Fees	\$45,750
Total	\$775,065

**Estimates based on a total Par Amount of \$25,000,000.00*

PUBLIC BENEFITS

By lowering the cost of borrowing for Prepa Tec Middle School, 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 11th, 2019

Publications: CSFA Website

Date of TEFRA Hearing: September 18th, 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. 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 Alta Public Schools Foundation. 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 Prepa Tec Middle School'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' Board approve Resolution Number 19-29 authorizing the issuance of educational facilities revenue bonds in an amount not to exceed \$25,000,000 to finance and refinance the acquisition, construction, renovation, furnishing, and equipping of certain educational facilities located in Los Angeles County, California for Prepa Tec Middle School.

1. **Applicant / Borrower:** Alta Public Schools Foundation
2. **Project:** Acquisition and Pre-Funding
3. **Amount of Financing:** not to exceed \$25,000,000
4. **Maturity:** November 1, 2058 (Tax-Exempt); November 1, 2026 (Taxable)
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** Estimated to be 5.50%
7. **Fees:** \$1,327,815 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 Prepa Tec Middle School 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

Gregory Tanner	Chair	Attorney
Mary Porras	Secretary	Los Angeles County Department of Health Services
Dustin Bainbridge	Treasurer	Horizon Education
Dr. Raul Carranza	Member	TEACH Public Schools
Jesse Pelayo	Member	LAUSD Teacher
Azucenia Chavarria	Member	HP Inc.

Officers

Xavier Reyes	Founder & Chief Executive Officer
Dr. Jamie Valenzuela-Mumau	Superintendent of Instruction

APPENDIX B: FINANCIAL PROJECTIONS AND ENROLLMENT

	Projected 2019-20	Projected 2020-21	Projected 2021-22	Projected 2022-23	Projected 2023-24
ENROLLMENT					
Enrollment	380	420	486	486	486
ADA	361.0	399.0	461.7	461.7	461.7
ADA %	95.0%	95.0%	95.0%	95.0%	95.0%
REVENUE					
Primary State Aid Revenue	\$ 3,870,140	\$ 4,406,370	\$ 5,234,611	\$ 5,401,089	\$ 5,575,784
Federal Revenue	560,636	540,489	672,923	683,135	683,135
Other Federal Revenue	13,103	14,482	14,482	14,482	14,482
Other State Revenue	403,369	436,003	458,813	459,870	459,870
SB740 Revenue	165,240	399,000	461,700	461,700	461,700
Other Local Revenue	12,844	14,196	16,427	16,427	16,427
Total Revenues	\$ 5,025,331	\$ 5,810,540	\$ 6,858,955	\$ 7,036,703	\$ 7,211,398
EXPENSES					
Certificated Salaries	\$ 1,326,419	\$ 1,519,295	\$ 1,751,701	\$ 1,804,253	\$ 1,858,380
Classified Salaries	368,510	379,565	390,952	402,680	414,761
Benefits	572,301	682,357	768,343	786,795	812,700
Books and Supplies	415,635	483,574	568,351	579,718	591,312
Operations and Housekeeping	195,187	220,048	259,719	264,913	270,212
Subagreement Services	303,679	327,522	363,979	371,258	378,683
Existing Rent	220,320	-	-	-	-
Base Rent (Bond Payments)	-	767,818	1,302,067	1,224,058	1,256,250
Additional Rent	20,564	22,433	22,386	7,085	5,676
Other Facility Costs	76,807	86,590	102,201	104,245	106,330
Professional Fees	343,541	138,994	159,408	160,449	164,086
Subordinated CMO Mgmt. Fees	854,306	882,593	1,041,586	1,068,248	1,094,453
Depreciation/Amortization	20,640	21,053	21,474	21,903	22,341
Total Expenses	\$ 4,717,908	\$ 5,531,842	\$ 6,752,167	\$ 6,795,606	\$ 6,975,183
Net Operating Income	\$ 307,423	\$ 278,698	\$ 106,789	\$ 241,097	\$ 236,215
Add Back: Depreciation/Amortization	20,640	21,053	21,474	21,903	22,341
Add Back: Base Rent	220,320	767,818	1,302,067	1,224,058	1,256,250
(A') NOI Avail. after Mgmt Fees	\$ 548,383	\$ 1,067,569	\$ 1,430,329	\$ 1,487,059	\$ 1,514,806
Add Back: CMO Management Fee	854,306	882,593	1,041,586	1,068,248	1,094,453
(A) NOI Available for Base Rent	\$ 1,402,689	\$ 1,950,162	\$ 2,471,915	\$ 2,555,307	\$ 2,609,259
(B) Base Rent	\$ 220,320	\$ 767,818	\$ 1,302,067	\$ 1,224,058	\$ 1,256,250
(A/B) Base Rent Coverage Ratio	6.37x	2.54x	1.90x	2.09x	2.08x

	Historical			Latest	Projected				
	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Grade 6	148	138	114	83	107	133	162	162	162
Grade 7	127	162	152	137	104	113	162	162	162
Grade 8	98	124	147	135	134	140	162	162	162
Total	373	424	413	355	345	386	486	486	486

Source: Alta Public Schools.