

\$39,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)
CHARTER SCHOOL REVENUE BONDS
(SCHOOLS IN ACTION CHARTER SCHOOLS – OBLIGATED GROUP)
SERIES 2019A \$38,000,000 (TAX-EXEMPT) AND 2019B \$1,000,000 (TAXABLE)
ITEM #4 - RESOLUTION 19-30

*Not-to-Exceed Amount

STAFF SUMMARY

EXECUTIVE SUMMARY

Applicant/Borrower:	Schools In Action Facilities, LLC	Par Amount Requested*:	\$39,000,000 (TE) \$1,000,000 (Taxable)
Financing Term: 40 years (Tax Exempt), Three years (Taxable)		Interest Rate: 5.00% (Estimated)	
Estimated Source of Funds: Tax Exempt Bonds (Series 2019 A): \$38,000,000 Taxable Bonds (Series 2019 B): \$1,000,000		Estimated Use of Funds: Finance the acquisition and improvements of facilities currently leased by Schools In Action to operate an elementary school and a middle school.	
Applicant Description: Schools In Action Facilities, LLC was formed exclusively to support Arts In Action Community Charter Elementary School and Arts In Action Community Middle School. Its sole member is Schools In Action, a 501(c)3 organization.			
Type of Financing: Charter School Revenue Bonds (Tax-Exempt and Taxable Series)			
Project Users:	Arts In Action Community Charter Elementary School & Arts In Action Community 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: Facility acquisition; additional facility improvements; reimbursements.			
Potential Project Sites: (1) 5115 Via Corona St., East Los Angeles; (2) vacant land on the southwest and southeast corners of the intersection of S. Woods Avenue and Repetto Avenue, East Los Angeles, California; and (3) 745-747 & 755-757 S. Kern Ave., East Los Angeles.			
Type of Issue:		Charter School Revenue Bonds	
Tax Status:		Tax-Exempt and Taxable	
Maturity:		June 1, 2059 (Tax-Exempt); June 1, 2023 (Taxable)	
Credit Enhancement:		No	
Credit Rating:		Unrated	
CSFA Fees:		See Costs of Issuance Table	
Other Fees:		See Costs of Issuance Table	

Estimated Sources of Funds		Estimated Use of Funds	
Tax Exempt Bond Proceeds	\$33,465,000	Elementary School Buyout	\$16,835,000
Taxable Bond Proceeds	\$620,000	Elementary School Phase 2 Shading	\$500,000
Total	\$34,085,000	Middle School Buyout & Construction	\$11,722,140
Financing Team:		Parking Lot Purchases	\$1,200,000
Bond Counsel:	Kutak Rock LLP	Capitalized Interest Fund	\$529,255
Underwriter:	Stifel, Nicolaus & Company	Total Project Costs	\$30,786,395
Underwriter's Counsel:	Stradling Yocca Carlson & Rauth PC	Cost of Issuance	\$454,154
Borrower's Counsel:	Procopio	Underwriter's Discount	\$766,913
Issuer's Counsel:	Attorney General's Office	Total Cost of Issuance:	\$1,235,355
Issuer:	CA School Finance Authority	Debt Service Reserve Fund	\$2,063,250
Master Trustee:	Wilmington Trust	Total Other Costs	\$2,063,250
Agent for Sale:	State Treasurer's Office	Total	\$34,085,000
		*Contingency is wrapped into Costs of Issuance in the below S&U (\$454,154+\$14,288=\$468,442)	
CSFA Staff: Robby Biegler and Jose Franco		Date of Staff Report: October 24, 2019	
Date of CSFA Board Meeting: October 29, 2019		Resolution Number: 19-30	
Staff Recommendation: Staff recommends the California School Finance Authority Board approve Resolution Number 19-30 authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$39,000,000 to finance and refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and equipping of certain educational facilities located in Los Angeles County for Arts In Action Community Charter Elementary School And Arts In Action Community Middle School.			

BACKGROUND AND HISTORY

Schools In Action (SIA) (Borrower) is a charter management organization currently operating two schools in East Los Angeles, Arts In Action Community Charter Elementary School (Elementary School) and Arts In Action Community Middle School (Middle School). The Elementary School was the first campus established by SIA, opening in 2011, and serving grades K-5. In 2016, with a full charter term of the Elementary School completed, the Middle School was opened after a substantial number of parents of the Elementary School students urged SIA for a middle school to accommodate their children after they completed their time at the Elementary School. Both campuses are located in East Los Angeles and both charters, authorized by the Los Angeles Unified School District (LAUSD), were approved on July 1, 2016, and expire June 30, 2021. The curriculum for the Arts In Action schools is liberal arts focused and primarily serves students of low socioeconomic status who reside in the attendance area of underperforming non-charter public schools. Demographics for the schools include:

	% Free and Reduced Priced Lunch	% Minority Students	% English Language Learners
Elementary School	98.4%	99.4%	41.8%
Middle School	96.7%	100%	27%

The school's founder and Executive Director, Dr. Glenda Aleman, was a bilingual LAUSD elementary school teacher. She was additionally a professor at Cal State Dominguez Hills, a founding teacher at Los Angeles Leadership Academy, and served as the Teacher Induction Director at Partnership to Uplift Communities. Board Members and Executive Staff for Arts in Action Community Charter Elementary and Middle School are attached in Exhibit B.

There is a one hundred student enrollment jump at the junior high between the 19-20 and 2020-21 school years. According to information provided by the school the jump is a result of the elementary school and middle school being co-located at 1241 S Soto Street. As such, the facility had limited space and was primarily filled with students from the already established elementary school. The 2019-20 year is the first year in which the middle school had the space to expand enrollment. The school chose to keep enrollment in 2019-20 similar to the prior year (approx. 150 students), to avoid busing students from Boyle Heights (where the school is currently located) to East Los Angeles (where the new facility will be located) next year. When the school moves to their new facility in East Los Angeles, there will be more space to increase enrollment than prior years. In addition to more space, the middle school will no longer be located in the same building as Endeavor College Prep, a K-8 charter school in Boyle Heights., which AIA has competed with for students. Lastly, the East Los Angeles middle school facility's proximity to the neighboring community of Montebello provides the middle school the opportunity to serve a community with low charter penetration in grade 6-8.

Enrollment projections for the campuses for the next six years include:

School	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25
AIA Elementary							
TK		21	35	50	60	60	60
K	29	51	62	66	62	62	62
1	63	49	62	62	62	62	62
2	48	70	62	62	62	62	62
3	53	66	65	62	62	62	62
4	53	71	65	65	62	62	62
5	49	51	65	65	62	62	62
ES Total	305	379	416	432	432	432	432
AIA Middle							
6	49	57	100	100	100	100	100
7	57	57	90	90	90	90	90
8	44	56	80	80	80	80	80
MS Total	150	170	270	270	270	270	270
TOTAL	455	549	686	702	702	702	702

PROJECT DESCRIPTION

The proceeds of the Bonds will be used to: 1) finance the acquisition, pre-development and improvement costs of certain educational facilities located at 5115 Via Corona St., East Los Angeles, CA and 745-757 & 755-757 S, Kern Ave., East Los Angeles, CA (Facilities); 2) finance the acquisition and improvement costs of parking lots located at the southwest and southeast corners of the intersection of S. Woods Avenue and Repetto Avenue, East Los Angeles, CA; 3) fund a capitalized interest account; 4) fund a reserve account; and 5) pay cost of issuance.

Site	Landlord	Location	Purpose	Amount
Arts In Action Elementary	Schools In Action Facilities, LLC	5115 Via Corona St, East Los Angeles, CA 90022	Acquisition	\$16,835,000
Arts In Action Elementary	Schools In Action Facilities, LLC	5115 Via Corona St, East Los Angeles, CA 90022	Phase II Construction of Shade Structure	\$500,000
Arts In Action ES Parking Lots	Schools In Action Facilities, LLC	335 & 346 S. Woods Ave. East Los Angeles, CA 90022	Acquisition & Improvements	\$1,200,000
Arts In Action Middle School	Schools In Action Facilities, LLC	745-747 & 755-757 S. Kern Ave. East Los Angeles, CA 90022	Acquisition & Construction	\$11,722,140
Total Estimated Project Costs				\$30,257,140

Red Hook Capital Partners (RHCP) is a real estate development firm that works exclusively with charter schools. RHCP identifies and develops sites for schools under turn-key lease arrangements. RHCP is funded by private investors who expect repayment within five years. These investors front all the development costs, including land acquisition, permitting, construction, and owns the facility at the outset. The typical RHCP lease escalates in rent each year by 3%, and offers a purchase option sometime in the first three years.

Elementary School Project: SIA entered into a lease agreement with RHCP to develop the ground up construction of a two-story building for use by the Elementary School. The facility has 19,074 square feet of useable space with 20 classrooms, administrative offices, reception area, outdoor lunch area, outdoor playground, and outdoor amphitheater. RHCP completed the construction of the facility in August 2019. The development and construction budget for this project cost RHCP approximately \$13,435,000. RHCP currently leases the facility to SIA. At the closing of the Bonds, Schools In Action Facilities, LLC (SIAF) will purchase the building and lease it to SIA (Lessee). In addition to the facility, SIAF intends to purchase a two lot parcel located at the southwest and southeast corners of Repetto Ave. and S Woods Ave., about one block south of the school. At the closing of the Bonds, RHCP will assign interest in the purchase and sale agreements to SIAF and will serve as developer to improve the sites as parking lots. The Trustee will hold Bond proceeds related to the acquisition of the parcels in escrow for approximately nine-months until SIAF receives a conditional use permit and entitlement from the county. SIAF will subsequently lease the parking lots to SIA. The acquisition and improvement of the sites is estimated at \$1.2 million. Finally, there is a \$500,000 proceed allocation allotted for a shade project. RHCP paid an initial price of \$3,400,000 for the unimproved and unentitled site for the elementary school campus.

Middle School Project: SIA entered into a lease agreement with RHCH to develop the ground up construction of a two-story building for use by the Middle School. The facility will have 13,231 square feet of useable space with 13 classrooms, administrative offices, reception area, outdoor lunch area, and outdoor playground. RHCP intends to complete the construction of the facility by August 2020. At the closing of the Bonds, SIAF will purchase the parcels and acquire title. RHCP will remain on the project as developer and SIAF will fund construction with proceeds from the Bonds. RHCP paid an initial price of \$2,295,000 for the four individual parcels, which make up the site for the middle school campus. These parcels have existing older buildings which will be demolished to prepare the site construction of the new facility. The development and construction budget for this project includes an additional \$9,427,140. SIAF was formed exclusively to support the Elementary School and the Middle School. SIA, is a 501(c)(3) organization, will be the sole member of SIAF, and will lease the facilities to SIA to operate both subject schools.

FINANCING

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 the Elementary School and the Middle School. The bonds will be issued in two series: (1) Series 2019A (tax-exempt) will be approximately \$38,000,000 and (2) Series 2019B (taxable) will be approximately \$1,000,000 (Bonds). 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, 2059. The taxable series is expected to be issued as one term bond, maturing on June 1, 2023.

Security and Source of Payment

The Bonds will be payable proceeds 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 Elementary School and the 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 State Controller's Office 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	\$33,465,000	\$620,000	\$34,085,000
Total:	\$33,465,000	\$620,000	\$34,085,000
Uses:	Series 2019A (Tax-Exempt)	Series 2019B (Taxable)	Total
Project Fund Deposits:			
RHC Buyout – ES	\$16,835,000	\$0.00	\$16,835,000
Parking Lot Purchase – ES	\$1,200,000	\$0.00	\$1,200,000
Phase II Shade – ES	\$500,000	\$0.00	\$500,000
RHC Buyout & Construction – MS	\$11,722,140	\$0.00	\$11,722,140
Capitalized Interest Fund	\$516,179	\$13,076	\$529,255
	\$30,773,319	\$13,076	\$30,786,395
Other Fund Deposits:			
Debt Service Reserve Fund	\$2,025,720	\$37,530	\$2,063,250
Delivery Date Expenses:			
Cost of Issuance	\$252,088	\$216,354	\$468,442
Underwriter's Discount	\$413,874	\$353,039	\$766,913
	\$665,962	\$569,393	\$1,235,355
Other Uses of Funds:			
Additional Proceeds			
Total:	\$33,465,000	\$620,000	\$34,085,000

Total Costs of Issuance

Expense	Amount
CSFA Issuance Fees	\$27,042
Issuer Application Fee	\$1,500
CSFA Admin Fees	\$5,113
Issuer's Counsel Fees	\$6,000
Agent-for-Sale Fees	\$6,000
CDIAC Fee	\$5,000
Underwriter's Discount	\$766,913
Underwriter's/Disclosure Counsel Fees	\$95,000
Bond Counsel Fees	\$125,000
Borrower's Counsel Fees	\$100,000
Trustee & Trustee's Counsel Fees	\$11,000
Title Insurance	\$50,000
Financial Printer Fee	\$5,000
Appraisal Fees	\$17,500
Contingency Fees	\$14,287
Total	\$1,235,355

**Estimates based on a not-to-exceed Par Amount of \$39,000,000.00*

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 the Bonds 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

TEFRA

Date of TEFRA Publication: October 22, 2019

Publications: CSFA Website

Date of TEFRA Hearing: October 29, 2019

Oral/Written Comments: TBD – will be provided to the board at the time of the meeting.

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.

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 (LLC) 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 LLC 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 SIA's five-year budget and Financial Positions as well as enrollment.

STAFF RECOMMENDATION

Staff recommends the California School Finance Authority's (CSFA) Board approve Resolution Number 19-30 authorizing the issuance of educational facilities revenue bonds in an amount not to exceed \$39,000,000 to finance and refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and equipping of certain educational facilities located in Los Angeles County, California for Schools In Action.

1. **Applicant / Borrower:** Schools In Action Facilities, LLC.
2. **Project:** Acquisition and Improvements
3. **Amount of Financing:** Not to exceed \$39,000,000 (TE) and \$1,000,000 (Taxable)
4. **Maturity:** June 1, 2059 (Tax-Exempt); June 1, 2023 (Taxable)
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** Estimated to be 5.00%
7. **Fees:** \$1,235,356 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 Schools In Action 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.

APPENDIX A: 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	TK-8	TK-8	TK-8	TK-8	TK-8	TK-8
Enrollment	446	550	686	702	702	702
ADA %	96%	95%	95%	95%	95%	95%
Average Daily Attendance ("ADA")	427.3	522.5	651.7	666.9	666.9	666.9
Revenue						
State Aid - Revenue Limit	\$ 4,558,411	\$ 5,746,183	\$ 7,364,884	\$ 7,749,963	\$ 7,995,047	\$ 8,250,913
Other State Revenue	770,365	709,414	813,855	828,125	828,381	828,381
Federal Revenue	338,436	390,257	474,391	486,395	486,395	486,395
School Facilities (SB740) ¹	460,867	522,500	651,700	666,900	666,900	666,900
Other Local Revenue	38,662	47,188	57,198	58,658	58,658	58,658
Total Income	\$ 6,166,740	\$ 7,415,542	\$ 9,362,027	\$ 9,790,040	\$ 10,035,381	\$ 10,291,246
Expenses						
Certificated Salaries	\$ 1,952,578	\$ 2,365,835	\$ 2,775,652	\$ 2,831,165	\$ 2,887,788	\$ 2,945,544
Classified Salaries	1,242,170	1,215,919	1,259,277	1,284,463	1,310,152	1,336,355
Benefits	663,786	836,578	995,707	1,012,682	1,021,277	1,064,613
Books & Supplies	267,487	438,750	633,342	468,547	477,918	487,477
Subagreement Services	198,579	356,000	568,341	564,422	548,710	483,185
Professional/Consulting Services	328,697	317,424	366,150	380,357	387,182	394,202
Facilities, Repairs and Other Leases	117,508	152,000	179,024	187,390	191,138	194,961
Operations and Housekeeping	88,521	134,420	183,668	190,511	194,322	198,208
Management Fees	-	187,792	237,048	247,819	253,952	260,349
Depreciation	140,228	140,321	143,127	145,990	148,910	151,888
Interest	1,148	450	300	150	-	-
Soto Street Lease - ES	300,847	-	-	-	-	-
Red Hook Lease - ES ²	-	306,776	-	-	-	-
Additional Rent - ES (Parking Lots)	43,454	33,212	-	-	-	-
Soto Street Lease - MS ³	143,291	270,609	-	-	-	-
Additional Rent - MS	18,639	69,093	-	-	-	-
Base Rent (Bond Payments)	-	440,000	1,710,450	2,060,450	2,059,450	2,063,250
Total Expenses	\$ 5,506,934	\$ 7,265,180	\$ 9,052,087	\$ 9,373,947	\$ 9,480,800	\$ 9,580,032
Net Income	\$ 659,806	\$ 150,362	\$ 309,940	\$ 416,093	\$ 554,581	\$ 711,215
Add Back: Management Fees	-	187,792	237,048	247,819	253,952	260,349
Add Back: Depreciation	140,228	140,321	143,127	145,990	148,910	151,888
Add Back: Base Rent	506,231	1,119,690	1,710,450	2,060,450	2,059,450	2,063,250
Net Operating School Revenue	\$ 1,306,266	\$ 1,598,165	\$ 2,400,566	\$ 2,870,352	\$ 3,016,893	\$ 3,186,702
Base Rent Coverage Ratio	2.58x	1.43x	1.40x	1.39x	1.46x	1.54x
Net Operating School Revenue after Management Fees	\$ 1,306,266	\$ 1,410,373	\$ 2,163,518	\$ 2,622,533	\$ 2,762,941	\$ 2,926,353
Coverage after Management Fees	2.58x	1.26x	1.26x	1.27x	1.34x	1.42x
2018-19 2019-20 2020-21 2021-22 2022-23 2023-24						
Ending Cash Balance	\$ 1,561,571	\$ 1,727,542	\$ 1,780,602	\$ 2,364,109	\$ 3,059,883	\$ 3,900,303
Total Expenses	\$ 5,506,934	\$ 7,265,180	\$ 9,052,087	\$ 9,373,947	\$ 9,480,800	\$ 9,580,032
Less: (Base Rent)	(506,231)	(1,119,690)	(1,710,450)	(2,060,450)	(2,059,450)	(2,063,250)
Add: Maximum Annual Base Rent	1,955,500	1,955,500	1,955,500	1,955,500	1,955,500	1,955,500
Operating Expenses	\$ 6,956,203	\$ 8,100,990	\$ 9,297,137	\$ 9,268,997	\$ 9,376,850	\$ 9,472,282
Days Cash on Hand	82 days	78 days	70 days	93 days	119 days	150 days

¹ SB740 assumptions are based on the lessor of a) \$1.00 per ADA or b) 75% of rent

² Represents 4 months of lease payments on the 5115 Via Corona Elementary school facility in the year 2019-20 from August through November

³ Represents the full lease payments through the end of 2019-20

**APPENDIX B:
SCHOOL GOVERNANCE**

Board of Directors

Ronae Harrison	Board President	Los Angeles County Public Health Department
Nancy Flores	Vice President	Aspire Public Schools
Deborah Bronner	Secretary/Treasurer	Attorney
Dr. Bernardo Gallegos	Board Member	Sanford College of Education
Maria Raffanti	Board Member	Synergy Kinetic Charter School

Officers

Glenda Aleman	Executive Director
Kalin Balcomb	Director of Schools
Jamie Kikuchi	Elementary School Director
Karin Kroener-Valdivia	Middle School Director