

\$14,500,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)
CHARTER SCHOOL REVENUE BONDS
(CLASSICAL ACADEMIES VISTA PROJECT)
SERIES 2021A \$14,000,000 (TAX-EXEMPT) AND 2021B \$500,000 (TAXABLE)
ITEM #5 - RESOLUTION 21-07

STAFF SUMMARY

EXECUTIVE SUMMARY			
Applicant/Borrower:	Partnering with Parents, LLC	Par Amount Requested:	Not-to-Exceed * \$14,500,000
Financing Term: 20 years for tax-exempt, maturing in 2041; 1 year for taxable, maturing in 2022, 10-year call		Interest Rate: 4.65% on the Tax-Exempt; 5% on the Taxable	
Applicant Description: Partnering with Parents, LLC is a limited liability company formed for the single purpose of supporting its sole member, The Classical Academy, Incorporated, a 501(c)(3) nonprofit public benefit corporation.			
Type of Financing: Tax-Exempt and Taxable Charter School Revenue Bonds			
Project User:	The Classical Academy, Incorporated	County Served:	San Diego County
District in Which Project is Located:	Vista Unified School District	Charter Authorizer:	San Diego County Board of Education
Project Description: Acquisition, construction, expansion, rehabilitation, renovation, furnishing and equipping of charter school facilities.			
Project Site: 2022 University Blvd. Vista, CA 92083			
Financing Team:		Financing Details:	
Bond Counsel:	Stradling Yocca Carlson & Rauth	Type of Issue:	Charter School Revenue Bonds
Underwriter:	RBC Capital Markets	Tax Status:	Tax-Exempt & Taxable
Borrower's Counsel:	Young Minney & Corr	Maturity:	2024 (Taxable) & 2041 (Tax-Exempt)
Issuer's Counsel:	Attorney General's Office	Credit Enhancement:	No
Issuer:	California School Finance Authority	Credit Rating:	BB+ (Expected)
Bond/ Trustee:	Wells Fargo, NA	Fees:	See Costs of Issuance Table
Financial Advisor	Campanile Group, Inc.		
CSFA Analyst: Robby Biegler		Date of Staff Report: March 16, 2021	
Date of CSFA Board Meeting: March 25, 2021		Resolution Number: 21-07	
Staff Recommendation: Staff recommends the California School Finance Authority Board approve Resolution Number 21-07 authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$14,500,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain educational facilities located in San Diego County for The Classical Academy, Incorporated			

BACKGROUND AND HISTORY

The Classical Academy, Incorporated (TCA) is a charter school network that currently operates three schools throughout greater San Diego County; The Classical Academy Elementary School (TK-8); The Classical Academy High School (9-12); and The Classical Academy Vista (TK-8). Classical Academy Vista (Vista) is not part of the current TCA obligated group but will be included with this financing. TCA governance is included as Appendix A.

Partnering with Parents, LLC (PWP), a California limited liability company of which TCA is the sole member, will be the Borrower and will lease the Series 2021 facility to TCA.

TCA offers two award-winning and State-recognized educational models of independent study. Both of these two distinct models combine elements of classroom-based and non-classroom-based instruction, for purposes of Average Daily Attendance (ADA) calculations (due to the regulatory definition of non-classroom-based ADA), both models are considered to be non-classroom-based programs. While the State's assigned label of "non-classroom" based programming may give the impression that facilities are not needed by TCA schools, TCA utilizes many facilities to support the academic needs of students. There are only two schools in the current TCA obligated group with five facilities serving those two schools. With the addition of the Vista school and facility there will be six facilities serving three schools.

Vista is the most recent TCA school to open, serving students beginning in 2018. Vista serves 661 students in grades K-8 in suburban San Diego neighborhoods not currently served by the other TCA schools. Vista, like its TCA forbears, offers the same non-classroom and classroom based hybrid education described above. The Vista charter was authorized by the San Diego County Board of Education and renewed this year. Charter terms and authorizers for TCA schools in the obligated group are:

School	Authorizer	Charter Term
The Classical Academy Elementary & Middle	Escondido Union School District	2018/19-2023/24
The Classical Academy High School	Escondido Union High School District	2019/20-2024-25
The Classical Academy Vista	San Diego County Board of Education	2021/22-2025/26

The current enrollment outlook for the Classical obligated group include:

ENROLLMENT BREAKDOWN						
GRADE	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26
TK	35	50	55	60	70	75
K	207	205	235	250	260	270
1	189	210	240	250	260	270
2	202	230	245	260	270	280
3	206	240	245	260	270	280
4	201	240	245	260	270	280
5	197	245	245	260	270	280
6	222	260	270	275	285	295
7	307	360	370	380	395	405
8	293	325	370	377	395	405
9	297	310	316	336	336	336
10	336	345	362	375	375	375
11	324	360	360	373	373	373
12	<u>291</u>	<u>305</u>	<u>318</u>	<u>321</u>	<u>321</u>	<u>321</u>
TOTAL	3307	3685	3876	4037	4150	4245

The material increases in enrollment for TCA are attributed to the aforementioned independent study program, which has seen significant new student interest in the COVID era.

TCA is currently involved in a class suit filed against the State, Governor, Superintendent of Public Instruction and State Controller - challenging the constitutionality of Senate Bill 98, specifically related to funding levels being capped at 19-20 school year enrollment vs. recognizing enrollment increases. Other plaintiffs in that suit include River Springs Charter School and Learning Choice Academy. The outcome of the lawsuit will not impact the bonds or TCA's ability to repay the bonds as financial projections are based on current realities not potential legal outcomes.

CSFA has issued three previous bonds for TCA. In 2013, CSFA issued \$25,175,000 in bonds for facilities for TCAMS and TCAHS. In 2017, CSFA issued \$28,825,000 in bonds to refinance the 2013 issuance. In 2020, CSFA issued \$17,165,000 so that TCAES and TCAMS could purchase facilities they had previously leased.

Classical Obligated Group			
School	Site	Bonds	Obligated Group
Classical Academy, High School (9-12)	207 E. Pennsylvania Avenue, Escondido	2013/2017 ²	Yes
Classical Academy, Middle School ¹ (7-8)	144/146 Woodward Avenue, Escondido	2013/2017 ²	Yes
Classical Academy, High School (9-12) Personalized Learning Campus	130 Woodward Avenue, Escondido	2020	Yes
Classical Academy, Elementary School (TK-8)	2950 S. Bear Valley Parkway, Escondido	2020	Yes
Classical Academy, Middle School ¹ (7-8)	235/237 West Washington Avenue, Escondido	2020	Yes
Classical Academy, Vista (TK-8)	4010 Mystra Way, Oceanside/2020 University Blvd., Vista	2021	Yes ¹

(1) Part of the Elementary School Charter
(2) Refinanced with 2017 Bonds, with 2017 Bonds Replacing 2013 Bonds in Obligated Group

PROJECT DESCRIPTION

The proceeds of the Bonds will be used to (i) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of certain educational facilities located at 2022 University Blvd in Vista, CA; (ii) fund any reserve funds, capitalized interest and/or related working capital in connection with such Bonds, as necessary; and (iii) pay certain costs of issuance of the Bonds.

Project Breakdown				
Site	Landlord	Location	Purpose	Amount
Classical Academy Vista	Partnering with Parents LLC	2022 University Blvd. Vista, CA 92083	Acquisition	\$10,300,000
Classical Academy Vista	Partnering with Parents LLC	2022 University Blvd. Vista, CA 92083	Renovation	\$1,000,000
Total Estimated Project Costs				\$14,300,000

Vista currently leases a facility in greater San Diego County from New Venture Church. That lease expires in June of 2021. TCA had been looking for a facility to purchase for the Vista campus and found the University Blvd location, the former home of National University. The location includes an approximate 51,807 square foot building on about 7.78 acres. The building includes 28 classrooms, laboratories, office space, a library and conference rooms. Between the location, the price point, and the lease with New Venture Church expiring at school year's end, Classical has decided to purchase the National University facility.

¹ Will join the Obligated Group in connection with this financing.

The square footage at the National University facility is roughly double the square footage at the New Venture Church facility, Vista will be allowed to potentially double enrollment, currently capped owed to space constraints.

Vista currently pays \$39,567 in rent payments monthly. Depending on the maturity of the Bonds, monthly payments once the National University facility is acquired will be approximately \$75,000, an amount reflective of the increase in square footage being undertaken by TCA.

FINANCING

The Bonds will be issued in two series: (1) Series 2021A (tax-exempt) will be approximately \$14,000,000 and (2) Series 2021B (taxable) will be approximately \$500,000 (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 October 1, 2026, October 1, 2031, and October 1, 2041. The taxable series is expected to be issued as one term bond, maturing on October 1, 2024.

The facility financed with proceeds of the Bonds will be leased to The Classical Academy, Incorporated, a nonprofit public benefit corporation, pursuant to a lease from PWP and TCA. The facility will be used by the lessee to operate Vista.

TCA finances are included as Appendix B.

Security and Source of Payment

The Bonds will be secured by lease payments made by TCA to PWP and a deed of trust on the property. The lease payments will be paid directly to the bond Trustee via the CSFA intercept pursuant to Education Code 17199.4.

As additional security and in connection with the issuance of the Bonds, the lessee will provide instructions to the State Controller's Office (SCO) to make an apportionment to the Trustee with respect to Vista 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, 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.

COVID Note and 2020-21 Budget

TCA's budget planning included a 10% funding cut, and this budget draft was reviewed and approved by the TCA governing board. The budget was then adopted at a public meeting on May 18, 2020. After formal passing of the state budget in August 2020, TCA reviewed current state funding and adjusted the budget as needed. At this time, the Governor has signed a budget that does not include cuts, however it does include deferrals. These deferrals will create opportunities to utilize existing TCA reserves to successfully weather these times and sustain current organizational good standing.

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 2021A (Tax-Exempt)	Series 2021B (Taxable)	Total
Bond Proceeds:			
Par Amount	\$11,255,000	\$235,000	\$11,490,000
Bond Premium	\$1,504,060.95		\$1,504,060.95
Total:	\$12,759,060.95	\$235,000	\$12,994,060.95
Uses:	Series 2021A (Tax-Exempt)	Series 2021B (Taxable)	Total
Project Fund Deposits:			
University Blvd. Acquisition	\$10,300,000	\$0	\$10,300,000
University Blvd. Renovation	\$1,000,000	\$0	\$1,000,000
	\$11,300,000	\$0	\$11,300,000
Other Fund Deposits:			
Debt Service Reserve Fund	\$820,077.11	\$17,122.89	\$837,200.00
Capitalized Interest Fund	\$381,419.44	\$9,954.86	\$391,374.30
	\$1,201,496.55	\$27,077.75	\$1,228,574.30
Delivery Date Expenses:			
Cost of Issuance	\$187,411.87	\$149,806.63	\$337,218.50
Underwriter's Discount	\$67,769.32	\$54,171.03	\$121,940.35
	\$255,181.19	\$203,977.66	\$459,158.85
Other Uses of Funds:			
Contingency	\$2,383.21	\$3,944.59	\$6,327.80
Total:	\$12,759,060.95	\$235,000	\$12,994,060.95

Total Costs of Issuance*

Expense	Amount
Financial Advisor Fee	\$25,000
CDIAC Fee	\$2,974
Bond Counsel	\$85,000
Borrower's Counsel	\$40,000
Underwriter's Counsel (preparing disclosure)	\$65,000
CSFA Issuance Fee	\$15,745
CSFA 1st Admin Fee	\$1,723.50
CSFA Issuer Fee - PFD Fee	\$6,000
Issuer's Counsel (AG)	\$10,000
Underwriter's Discount	\$121,940.35
Rating Agency Fee	\$44,750
Trustee & Dissemination Fee	\$8,000
Financial Printer Fee	\$5,000
Title Insurance Estimate	\$15,000
Appraiser Fee	\$3,000
Contingency	\$10,025.85
Total	\$459,158.85

**Estimates based on a not-to-exceed Par Amount of \$14,500,000*

SALES RESTRICTIONS

The following sales restrictions will apply to the financing given the Bonds will be rated BB+. 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. The initial Bond purchaser 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

Tax Equity and Fiscal Responsibility Act (TEFRA): The TEFRA Notice was published on the CSFA Webpage on March 18, 2021. The TEFRA hearing will take place on Thursday, March 25, 2021. Staff does not anticipate any comments but will provide an update to the Board if any are received.

Due Diligence Undertaken to Date: No information disclosed cause CSFA to question the financial viability or legal integrity of the Borrower. Standard opinions of counsel (i.e., that the borrowing entity and/or its sole member 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.

Additionally, section 17183.5 of the CSFA Act states that it is the intent of the Legislature to provide financing only for projects demonstrated by the participating party to be financially feasible. In demonstrating financial 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 this section shall be construed to imply that any project is required to produce revenue in order to be financed under this chapter.

Borrower Financial Data: The Borrower is a California limited liability company formed as a support organization for charter schools formed and controlled by TCA, its sole member. TCA has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code. For federal tax purposes, the Borrower is treated as a “disregarded entity” of CPMS because CPMS is its sole member.

The limited liability company 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 owning facilities and is not expected to have any other assets or revenue available to it to make payments due under the Loan Agreement.

STAFF RECOMMENDATION

Staff recommends the California School Finance Authority's (CSFA) Board approve Resolution Number 21-07 authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$14,500,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain educational facilities located in San Diego County, California for use by Classical Academy Vista.

1. **Applicant / Borrower:** Partnering with Parents, LLC
2. **Project:** Acquisition and Renovation
3. **Amount of Financing:** Not to exceed \$14,500,000
4. **Maturity:** June 30, 2051
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** 4.65% on tax-exempts and 5% on taxable
7. **Fees:** \$459,158.85 is the total estimated Costs 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 loan 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 must issue the bonds no later than 12 months from such date. Once the approval has expired, the item must return to the Board for new approval.
10. **Loan Agreement Covenants:** N/A

**APPENDIX A:
SCHOOL GOVERNANCE**

Officers

Mark Reardon	President
Mark Donar	Secretary
Patty Huerta	Treasurer
Paul Donovan, Jr.	Member
Angie Mosteller	Member

Board of Directors

Corey Meitchik	Board President
Kathy Kinsella	Secretary
Alex Brizolis	Trustee
Lisa Dietrich	Trustee
Garth Hebbler	Trustee

APPENDIX B: ESTIMATED BUDGET PROJECTIONS AND ENROLLMENT

	<i>CURRENT YR.</i>		<i>5 YEARS PROJECTED</i>			
	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	FY 25/26
Enrollment	3,307	3,685	3,876	4,037	4,150	4,245
REVENUE						
LCFF Revenue	28,977,861	34,036,497	36,748,547	39,579,991	41,030,808	41,292,972
Mandated Cost Block Grant	91,928	107,245	111,427	118,427	133,694	143,694
Lottery (Unrestricted & Restricted)	520,564	744,276	807,085	811,361	853,787	893,787
Other Income	<u>1,743,127</u>	<u>1,754,386</u>	<u>1,827,880</u>	<u>1,882,034</u>	<u>1,950,454</u>	<u>1,985,454</u>
Total Revenue	31,333,479	36,642,404	39,494,939	42,391,813	43,968,743	44,315,907
Less General Fund Contribution to SPE	<u>(1,188,246)</u>	<u>(1,224,630)</u>	<u>(1,368,930)</u>	<u>(1,421,643)</u>	<u>(1,429,334)</u>	<u>(1,429,334)</u>
Net Revenue	30,145,233	35,417,774	38,126,009	40,970,170	42,539,409	42,886,573
EXPENSES						
Certificated Salaries	10,456,375	11,002,187	11,616,114	11,938,525	12,435,401	12,793,508
Classified Salaries	2,520,404	2,663,864	2,805,713	2,868,466	2,960,632	2,987,216
STRS	1,599,116	1,724,624	1,826,311	1,834,784	1,870,000	1,875,000
PERS	617,690	592,058	713,254	744,270	774,000	781,000
Health/Welfare/Medicare	1,812,000	1,982,033	2,126,539	2,256,833	2,308,497	2,330,497
Other Benefits	194,971	207,965	216,712	230,441	247,761	250,761
Books & Supplies	1,184,412	1,276,959	1,250,265	1,259,691	1,290,526	1,290,526
Services & Other Operations	4,280,484	4,304,271	4,456,973	4,601,854	4,623,206	4,638,206
Facility Leases/New Bond Costs	2,406,974	3,804,645	3,803,875	3,804,584	3,804,584	3,804,584
Oversight Fee	43,000	138,077	140,720	150,256	150,256	150,256
Overhead Allocation	2,880,000	2,695,562	2,640,004	2,649,636	2,785,000	2,790,000
Depreciation & Amortization	<u>184,866</u>	<u>189,866</u>	<u>194,617</u>	<u>200,506</u>	<u>207,500</u>	<u>211,500</u>
Total Expense	28,180,292	30,582,112	31,791,097	32,539,845	33,457,362	33,903,053
Net Income (Loss)	1,964,941	4,835,662	6,334,912	8,430,325	9,082,046	8,983,520
Coverage Adjustments						
Depreciation & Amortization	184,866	189,866	194,617	200,506	207,500	211,500
Facility Leases/New Bond Costs	<u>2,406,974</u>	<u>3,804,645</u>	<u>3,803,875</u>	<u>3,804,584</u>	<u>3,804,584</u>	<u>3,804,584</u>
Net Revenue Available for Coverage	4,556,780	8,830,173	10,333,404	12,435,415	13,094,130	12,999,604
Projected Coverage	1.89	2.32	2.72	3.27	3.44	3.42