

\$10,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (CSFA)
CHARTER SCHOOL REVENUE BONDS
(BRIGHT START SCHOOLS– OBLIGATED GROUP – ISSUE NO. 2)
SERIES 2021A \$9,000,000 (TAX-EXEMPT) AND 2021B \$1,000,000 (TAXABLE)
ITEM #8 - RESOLUTION 21-30

STAFF SUMMARY

EXECUTIVE SUMMARY			
Applicant/Borrower:	Bright Star Education Group	Par Amount Requested:	Not-to-Exceed * \$10,000,000
Financing Term: 40 years for tax-exempt, maturing in 2061; four years for taxable, maturing in 2025, 10-year call		Interest Rate: 4.50% on the Tax-Exempt; 5.00% on the Taxable	
Applicant Description: Bright Star Education Group is a 501(c)(3) nonprofit public benefit corporation formed for the purpose of supporting Bright Star Schools in facility acquisition and development.			
Type of Financing: Tax-Exempt and Taxable Charter School Revenue Bonds			
Project User:	Valor Academy Middle School	County Served:	Los Angeles County
District in Which Project is Located:	Los Angeles Unified School District	Charter Authorizer:	Los Angeles Unified School District
Project Description: Bond proceeds will be used to finance the acquisition, construction, improvement, installation, furnishing and equipping of a new facility for Valor Academy Middle School.			
Project Site: 9034 Burnet Ave., North Hills, 91343			
Financing Team:		Financing Details:	
Bond Counsel:	Kutak Rock	Type of Issue:	Charter School Revenue Bonds
Underwriter:	Stifel, Nicolaus & Company	Tax Status:	Tax-Exempt & Taxable
Financial Advisor:	Campanile Group	Maturity:	2025 (Taxable) & 2061 (Tax-Exempt)
Borrower's Counsel:	Musick Peeler	Credit Enhancement:	Yes
Issuer's Counsel:	Attorney General's Office	Credit Rating:	BBB-
Issuer:	California School Finance Authority	Fees:	See Costs of Issuance Table
Bond/ Trustee:	Wilmington Trust		
CSFA Analyst: Robby Biegler		Date of Staff Report: October 21, 2021	
Date of CSFA Board Meeting: October 28, 2021		Resolution Number: 21-30	
Staff Recommendation: Staff recommends the California School Finance Authority Board approve Resolution Number 21-30, authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$10,000,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain educational facilities located in Los Angeles County for Bright Star Public Schools.			

BACKGROUND AND HISTORY

Bright Star Schools (BSS) was founded in 2002 with the opening of Stella Middle Charter Academy (SMCA), in the Crenshaw-West Adams neighborhood of Los Angeles, seeking to bring college-preparatory education to a neighborhood where it was otherwise overlooked. BSS now operates nine schools throughout greater Los Angeles, serving 3,598 students. Valor Academy Middle School (VAMS), located in the neighborhood of North Hills, began operation, independently, in the 2009-10 school year and merged with BSS in 2013. Their most recent charter expires June 30, 2024. VAMS was founded by current BSS Executive Director Hrag Hamalian, a Teach for America alumnus. Additional information on the BSS network is listed below:

Charter School	Grades Served	1st School Year	2021-22 Enrollment	Projected Full Enrollment	Charter Expires	No. of Renewals	Authorizer
OBLIGATED GROUP SCHOOLS							
Valor Academy MS	5-8	2009-10	512	512	06/30/2024	2	LAUSD
Stella Middle Charter Academy	5-8	2003-04	461	525	06/30/2023	3	LAUSD
Valor Academy HS	9-12	2013-14	535	540	06/30/2023	1	LAUSD
OTHER NETWORK SCHOOLS							
Bright Star Secondary Charter Academy	9-12	2006-07	518	540	6/30/2026	3	LAUSD
Stella Elementary Charter Academy	TK-4	2017-18	224	443	6/30/2022	-	LAUSD
Rise Kohyang MS	6-8	2012-13	355	440	6/30/2026	2	LAUSD
Valor Academy ES	TK-4	2016-17	394	444	6/30/2026	1	LAUSD
Rise Kohyang HS	9-12	2016-17	475	550	6/30/2026	1	LAUSD
Rise Kohyang ES	TK-5	2019-20	124	394	6/30/2023	-	
Total Network			3,598	4,388		13	

This is the second issuance for BSS and Bright Star Education Group (BSEG), the 501(c)(3) nonprofit public benefit corporation formed to provide facility and financial support for BSS. The first issuance was in 2017 and funded facility acquisition for SMCA and Valor Academy High School (VAHS). The 2017 bonds were issued as part of an obligated group structure under a Master Trust Indenture (MTI). The 2021 bonds will be included under the MTI and added to the obligated group. BSS obligated group schools include:

Obligated Group School	Corresponding Bonds
Stella Middle Charter Academy	2017 Bonds
Valor Academy High School	2017 Bonds
Valor Academy Middle School	2021 Bonds

BSS serves a high-need student population. Current demographics for the obligated group include:

2020-21 Demographics	Stella Middle Charter Academy	Valor Academy Middle School	Valor Academy High School
Eligible for Free or Reduced Price Meals	93.3%	95.1%	94.9%
English Language Learners	12.5%	24%	29%
African American	0.9%	0.6%	11.7%
Latinx	92.2%	90.6%	85.9%
Minority (Non-White)	98.1%	98.6%	99.8%

Current and future enrollment projections for the BSS obligated group include:

Obligated Group - Projected Enrollment

Obligated Group School	2021-22	2022-23	2023-24	2024-25	2025-26
Valor Academy High School (VAHS)	535	545	540	540	540
Stella Middle Charter Academy (SMCA)	461	495	515	525	525
Valor Academy Middle School (VAMS)	512	512	512	512	512
TOTAL	1,508	1,552	1,567	1,577	1,577

The modest growth in the enrollment of the obligated group, though not specific to VAMS, is primarily related to SMCA. In January 2020, SMCA relocated to its new facility which provided additional space to enroll more students. Additionally, BSS expects increased demand for SMCA as Stella Elementary Charter Academy’s (SECA) first cohort of 4th graders matriculate to 5th grade.

A description of BSS leadership, including the Board of Directors and School Leadership, is included in Appendix A.

PROJECT DESCRIPTION

The proceeds of the bonds will be used to (i) acquire the Burnet Avenue campus and reimburse the Borrower for certain development costs; (ii) fund any reserve funds, capitalized interest and/or related working capital in connection with such bonds, as necessary; (iii) pay certain costs of issuance of the bonds; and (iv) potentially pay for additional renovation costs at the Burnet Avenue campus.

Estimated Project Breakdown				
Site	Landlord	Location	Purpose	Amount
Valor Academy Middle School	BSDG 4115 MLK LLC	9034 Burnet Ave. North Hills, CA 91343	Land Acquisition	\$6,925,000
Total Estimated Project Costs				\$6,925,000

The North Hills VAMS campus is currently leased from PCSD 15136 Nordhoff LLC, a subsidiary of Pacific Charter School Development Company (PCSD). PCSD is a private non-profit developer that primarily builds turnkey charter school facilities in underserved areas. The VAMS lease includes a purchase option and BSS is choosing to exercise it thanks to current interest rates and the triggering of the purchase option.

The facility is located on a 2.06 acre site and includes a 2-story 26,941 SF building with 16 classrooms, a science lab, a computer lab, a multi-purpose room, a turf field, 40 on-site parking spaces, and 66 bicycle parking spaces.

FINANCING

The bonds will be issued in two series: The proposed bond structure includes (1) Series 2021A Bonds (tax-exempt) that will be approximately \$9,000,000 in total and (2) Series 2021B Bonds (taxable) that 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 July 1, 2041, July 1, 2051, and July 1, 2061. The taxable series is expected to be issued as one term bond, maturing on July 1, 2025. The facility that will be funded with Bond proceeds is leased to Valor Academy Middle School, a nonprofit public benefit corporation, pursuant to a lease with Bright Star Development Group – 9034 Burnett LLC. The facility is used by the lessee to operate VAMS for grades 6-8.

Borrower: Bright Star Education Group, a 501(c)(3) nonprofit public benefit corporation formed for the purpose of supporting Bright Star Schools in facility acquisition and development. Information regarding the Borrower’s finances are included as Appendix B.

Security and Source of Payment

The Bonds will be secured by lease payments made by Lessee to BSDG 4115 MLK LLC, a limited liability company (LLC) whose sole member is BSEG, and a deed of trust on the property. The lease payments will be paid directly to the Bond Trustee via the California School Finance Authority (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 VAMS 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.

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:	Series 2021A (Tax- Exempt)	Series 2021B (Taxable)	Credit Enhancement	Total
Bond Proceeds:				
Par Amount	\$6,425,000	\$490,000	\$0	\$6,915,000
Premium	\$375,503	\$0	\$0	\$375,503
Credit Enhancement Grant	\$0	\$0	\$409,626	\$409,626
Total:	\$6,800,503	\$490,000	\$409,626	\$7,700,129
Uses:	Series 2021A (Tax- Exempt)	Series 2021B (Taxable)	Credit Enhancement	Total
Project Fund Deposits:				
VAMS Acquisition	\$6,675,515	\$0	\$0	\$6,675,515
	\$6,675,515	\$0	\$0	\$6,675,515
Other Fund Deposits:				
Debt Service Reserve Fund	\$0	\$0	\$409,626	\$409,626
	\$0	\$0	\$409,626	\$409,626
Delivery Date Expenses:				
Cost of Issuance	\$96,304	\$381,191	\$0	\$477,495
Underwriter's Discount	\$27,196	\$107,647	\$0	\$134,843
	\$123,500	\$488,838	\$0	\$612,337
Other Uses of Funds:				
Contingency	\$1,488	\$1,162	\$0	\$2,650
Total:	\$6,800,503	\$490,000	\$409,626	\$7,700,129

Total Costs of Issuance*

Expense	Amount
CDLAC Fee	\$2,000
Bond Counsel	\$100,000
Borrower's Counsel	\$80,000
Underwriter's/Disclosure Counsel	\$80,000
Financial Advisor	\$52,500
CSFA Issuance Fee	\$14,957.25
CSFA 1st Admin Fee	\$1,037.25
CSFA Issuer Fee - PFD Fee	\$6,000
Issuer's Counsel (AG)	\$8,000
Underwriter's Discount	\$134,842.50
Trustee & Trustee Counsel Fee	\$10,000
S&P Rating Fee	\$35,000
Financial Printer Fee	\$5,000
Title Fees & Charges	\$50,000
Appraisal	\$8,000
Contingency	\$24,999
Total	\$612,337

*Estimates based on a not-to-exceed of \$10,000,000

Credit Enhancement

A not-to-exceeds \$1,000,000 credit enhancement award application for VAMS for this financing is before the CSFA Board as a subsequent agenda item at today's October 28, 2021 meeting. The enhancement award will replace the current projected Debt Service Reserve Fund of approximately \$410,000, reducing the overall borrowing cost for VAMS.

SALES RESTRICTIONS

The following sales restrictions will apply to the financing given the BBB- 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 \$25,000 (BBB)
2. Bonds may be publicly offered or privately placed
3. Bonds will be sold initially only to Qualified Institutional Buyers (QIB) and Accredited Investors (AI)
4. Subsequent transfers of bonds are limited to QIBs and AIs
5. Sales restrictions conspicuously noted on bond and described in detail in offering materials, if any, as well as in the bond documents
6. If the rating is BB+ or below or the bonds are unrated, 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 October 21, 2021. The TEFRA hearing will take place on Thursday, October 28, 2021. Staff does not anticipate any comments but will provide an update to the Board if any are received.

Due Diligence Undertaken to Date: The financial, operating and other information concerning the Borrower, the Project and related matters presented in this Staff Summary was provided by the Borrower and Lender. The analysis contained herein was prepared by Authority Staff for the limited purpose of determining financial feasibility pursuant to Section 17183.5 of the CSFA Act and providing the Authority Board with information concerning certain aspects of the Project. The review undertaken by Authority staff, the recommendation of Authority Staff to the Authority Board to approve the financing, or any approval by the Authority Board are not intended to, and did not, include all of the due diligence activities and other investigations necessary or desirable for the purpose of making an investment decision relating to the making of the financing by the Lender, and should not be relied on by any party for such purpose.

Borrower Financial Data: The Borrower is a California LLC formed as a support organization for charter schools formed and controlled by Girls Athletic Leadership Schools Los Angeles, its sole member (the "Sole Member"). The Sole Member 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 the Sole Member.

The LLC 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 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 21-30 authorizing the issuance of Charter School Revenue Bonds in an amount not to exceed \$10,000,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain educational facilities located in Los Angeles, California for use by Valor Academy Middle School.

1. **Applicant / Borrower:** Bright Star Education Group
2. **Project:** Acquisition and Construction
3. **Amount of Financing:** Not to exceed \$10,000,000
4. **Maturity:** July 1, 2061
5. **Repayment/Security:** Intercept of Lease Payments and Deed of Trust on Real Property
6. **Preliminary Interest Rate:** 4.5% on tax-exempt bonds and 5% on taxable bonds
7. **Preliminary Costs of Issuance:** \$612,337 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**

Board of Directors

Andrew Murr	Board Chair
James McGrath	Board Secretary
Jen Cole	Member-at-Large
Dora Dome	Member-at-Large
Robin Elledge	Member-at-Large
Stephen Green	Member-at-Large
Larry Klein	Member-at-Large
George Leftwich	Member-at-Large
Lois Levy	Member-at-Large
Marisol Leon	Member-at-Large
Andrew Wang	Member-at-Large
Louisa Wee	Member-at-Large

School Leadership

Hrag Hamalian	Executive Director
Leeann Yu	Chief Operations Officer
Saman Bravo-Karimi	Chief Business Officer

APPENDIX B: ESTIMATED BUDGET PROJECTIONS AND ENROLLMENT

	Forecast 2021-22	Projected 2022-23	Projected 2023-24	Projected 2024-25	Projected 2025-26
Enrollment					
Grades Served	6-8	6-8	6-8	6-8	6-8
Enrollment	200	290	310	330	330
ADA %	96%	96%	96%	96%	96%
Average Daily Attendance ("ADA")	192.0	278.4	297.6	316.8	316.8
Revenue					
LCFF Revenue	\$ 2,130,453	\$ 3,171,014	\$ 3,495,404	\$ 3,854,769	\$ 3,931,727
Federal Revenue	1,059,048	572,691	306,715	320,142	320,142
Other State Revenue	455,242	214,325	220,498	225,536	226,017
School Facilities (SB740)	-	306,240	327,360	348,480	348,480
Local Revenue & Other	253,689	314,541	328,518	342,579	343,173
Total Revenue	\$ 3,898,431	\$ 4,578,811	\$ 4,678,496	\$ 5,091,507	\$ 5,169,539
Expenses					
Certificated Salaries	\$ 1,318,801	\$ 1,421,984	\$ 1,464,644	\$ 1,508,583	\$ 1,553,840
Classified Salaries	538,158	433,329	446,329	459,719	473,510
Benefits	492,184	519,350	538,194	562,224	587,634
Supplies	346,992	340,505	363,734	387,436	392,777
Operating Services	889,739	977,774	1,015,608	1,055,195	1,080,678
Other Outgo	26,258	21,544	13,709	5,412	61
Depreciation	16,448	11,095	6,431	6,039	2,983
Prop 39 & Other Facilities Rent	215,327	-	-	-	-
2021 Bonds Net Debt Service	-	436,500	654,750	779,750	782,875
Total Expenses	\$ 3,843,907	\$ 4,162,081	\$ 4,503,398	\$ 4,764,357	\$ 4,874,359
Net Income	\$ 54,524	\$ 416,730	\$ 175,098	\$ 327,150	\$ 295,181
Add Back: Depreciation	16,448	11,095	6,431	6,039	2,983
Add Back: Base Rent	215,327	436,500	654,750	779,750	782,875
Net Operating School Revenue	\$ 286,300	\$ 864,326	\$ 836,279	\$ 1,112,939	\$ 1,081,039
Base Rent Coverage Ratio	1.33x	1.98x	1.28x	1.43x	1.38x
2021-22					
Beginning Cash Balance	\$ 304,299	\$ 712,650	\$ 627,460	\$ 771,932	\$ 901,638
Plus: Net Income	54,524	416,730	175,098	327,150	295,181
Plus: Cash Flow from Operating Activities	412,514	(369,219)	109,912	(48,611)	15,173
Plus: Cash Flow from Investing Activities	-	-	-	-	-
Plus: Cash Flow from Financing Activities	(58,687)	(132,702)	(140,537)	(148,834)	(12,793)
Ending Cash Balance	712,650	627,460	\$ 771,932	\$ 901,638	\$ 1,199,200
Total Expenses	\$ 3,843,907	\$ 4,162,081	\$ 4,503,398	\$ 4,764,357	\$ 4,874,359
Less: (Base Rent)		(436,500)	(654,750)	(779,750)	(782,875)
Add: Maximum Annual Base Rent		782,875	782,875	782,875	782,875
Operating Expenses	\$ 3,843,907	\$ 4,508,456	\$ 4,631,523	\$ 4,767,482	\$ 4,874,359
Days Cash on Hand	68 days	51 days	61 days	69 days	90 days