

**M E M O R A N D U M**

**Staff Summary No. 4**

**Date:** December 15, 2022

**To:** Members of the California School Finance Authority

**From:** Katrina M. Johantgen, Executive Director

**Subject:** Resolution No. 22-52 – Approving Supplemental Bond Document relating to the 2020 KIPP SoCal Public Schools Series 2020 Bonds to amend the definition of Project

KIPP SoCal Public Schools (KSPS) is seeking a modification to their bond documents for the \$33,410,000 2020 bond issuance to add new charter school facility projects as one of the intended recipients of the 2020 bonds, KIPP Pueblo Unido, will not be constructing its previously planned school facility.

**Financing Approval Background:** In December 2020, the California School Finance Authority (CSFA) issued School Facility Revenue Bonds, Series 2020A, for purposes of financing tenant improvements and new construction at two KSPS schools: KIPP Promesa Prep (KPP) and KIPP Pueblo Unido (KPU), respectively. The new KPU facility was to be built at 7801 -7835 Otis Avenue in Cudahy, California. Cudahy is an independent city of approximately 23,000 residents located in southeastern Los Angeles County. As described in the Official Statement for the Bonds, in September of 2020, the Cudahy City Council approved the KPU development permit. However, in November 2020, a complaint was filed in Los Angeles County Superior Court alleging that the Cudahy City Council improperly exempted KPU from the California Environmental Quality Act (CEQA) review and the City of Cudahy Municipal Code. Acknowledging the lawsuit in all bond sale and closing documents, the 2020 financing was structured so that the proceeds expected to be used for the new KPU campus (\$29,000,000) would be placed in a segregated Construction Account within the Project Fund governed by certain restrictions set forth in the executed 2020 bond documents and summarized in the portion of the Official Statement pasted below.

***Conditions to Release of Bond Proceeds from KIPP Pueblo Unido Construction Account\****

*No disbursements shall be made from the KIPP Pueblo Unido Construction Account unless, on or prior to June 1, 2023, the Borrower is able to fulfill the KIPP Pueblo Unido Construction Account Draw Requirements applicable to such account, including a requirement for the delivery of a Certificate of the Borrower to the effect that the Pueblo Unido Facility Litigation has either been resolved in favor of the Pueblo Unido Facility pursuant to a final and unappealable court order or settlement agreement between the parties, or (B) KLARE 16, LLC has performed or agreed to perform all obligations imposed by the court in resolution of the Pueblo Unido Facility Litigation (which decision shall be made in its sole discretion).*

*The development review permit relating to the Pueblo Unido Facility (the “Pueblo Unido Facility Entitlements”) was approved by the City Council of the City of Cudahy (the “Cudahy City Council”) on September 15, 2020. On or about November 3, 2020, a complaint was filed in the Superior Court of the State of California the County of Los Angeles (Case No. 20STCP03621) alleging that the Cudahy City Counsel improperly exempted the KIPP Pueblo Unido Facility from environmental review under the California Environmental Quality Act (“CEQA”) and the City of*

Cudahy Municipal Code. The Petitioners include the Cudahy Alliance for Justice and individuals with interest in the City of Cudahy. The complaint names the City of Cudahy and the Cudahy City Council, as Respondents, and KIPP SoCal, KIPP Pueblo Unido and KLARE 16, LLC as Real Parties in Interest. The Petitioners are requesting, among other relief, the court to (i) set aside and vacate the approval of all entitlements for the Pueblo Unido Facility, including the Design Review Permit and the CEQA exemption, (ii) require an environmental review for the Pueblo Unido Facility, and (iii) issue an injunction against any activity pursuant to the Pueblo Unido Facility until an environmental review is completed and the Pueblo Unido Facility complies with California statutes and regulations. As of the date hereof, the filing of the Pueblo Unido Litigation does not restrict or prevent KIPP SoCal from proceeding with the development and construction of the Pueblo Unido Facility; however, KIPP SoCal does not intend to start construction until the Pueblo Unido Litigation has been resolved. In the event that the KIPP Pueblo Unido Construction Account Draw Requirements are not satisfied, the Bonds are subject to redemption from such unused proceeds in the Project Fund.

At this time, KIPP SoCal Public Schools (KSPS) is seeking board approval to amend the Indenture and Loan agreement associated with the 2020 Bond Issuance for \$33,410,000. The Executive Director is granted certain ministerial duties related to bond financings via a Delegation Resolution. The changes in use of bond proceeds requested by the borrower were outside of the scope of duties and delegated items prescribed in the delegation resolution hence it was determined that the changes in use of bond proceeds needed to come back to the CSFA board for approval. Once approved, the revisions will allow existing bond proceeds of approximately \$29,000,000 to be used at the following three campuses: 1) KIPP Scholar Academy; 2) KIPP Comienza Community Prep; and 3) KIPP Ignite Academy. These three schools have been added to the KIPP SoCal Obligated Group.

**Litigation Status and Project Fund:** In February 2022, the plaintiffs prevailed. After much deliberation regarding the consequences of this litigation, KSPS decided in October of this year to move forward with the construction of the KPU facility. KLARE Holdings, the borrower, is in the process of ensuring all obligations imposed by the court are performed to resolve the KPU Facility Litigation. Once that process is finalized, KLARE Holdings will be able to certify to the requirements of releasing the funds in the KPU Construction Account held in connection with the Bonds. The amount in said account is approximately \$29,000,000. In addition, there is approximately \$700,000 available in the Project Fund account due to cost savings on the KIPP Promesa project.

**Alternative Use of Bond Proceeds:** To make use of the unspent Bond proceeds, KSPS is requesting that the term "Project" in the documents be amended to include (a) KIPP Scholar Academy (KSA) located at 6100 South Hoover St., Los Angeles, CA, (b) KIPP Comienza Community Prep (KCCP) located at 7825 Santa Fe Ave., Huntington Park, CA, and (c) KIPP Ignite Academy (KIA) located at 1628 East 81st St., Los Angeles, CA. The landlords housing KSA (KLARE 17, LLC), KCCP (KLARE 19, LLC), and KIA (KLARE 15, LLC) are currently already in the KSPS Obligated Group.

School	Charter Expiration	Authorizer	Project Amount
KIPP Scholar Academy	6/30/2024	LAUSD	\$9,896,942.36
KIPP Comienza Community Prep	6/30/2027	LAUSD	\$9,896,942.36
KIPP Ignite Academy	6/30/2027	LAUSD	\$9,896,942.36
<b>TOTAL</b>			<b>\$29,690,827.08</b>

- The KSA project will include 22 classrooms, an outdoor play area, a multi-purpose room, underground parking and will replace two short-term leased facilities.
- The KCCP project will include 22 classrooms, an outdoor play area, a multi-purpose room, underground parking and will replace two short-term leased facilities.
- The KIA project will include 26 classrooms, an outdoor play area, a multi-purpose room, underground parking and will replace two short-term leased facilities.

The complete current KSPS obligated group and financing obligations include:

KSCPS Financing Obligations		
School Full Name	Abbreviation	Bonds
1. KIPP Los Angeles Prep	KLAP	Series 2014
2. KIPP Sol Academy	KSA	Series 2014
3. KIPP Illuminar Academy	KIA	Series 2014
4. KIPP Empower Academy	KEA	Series 2014
5. KIPP Scholar Academy	KSA	Series 2015 & 2020/22
6. KIPP Academy of Opportunity	KAO	Series 2015
7. KIPP Raices Academy	KRA	Series 2015 & 2019
8. KIPP Vida Preparatory Academy	KVP	Series 2015 & 2019
9. KIPP Academy of Innovation	KAI	Series 2017 & 2019
10. KIPP Comienza Community Prep	KCCP	Series 2017, 2019 & 2020/22
11. KIPP Corazon Academy	KCA	Series 2017 & 2019
12. KIPP Philosophers Academy	KPA	Series 2019
13. KIPP Compton Community School	KCCS	Series 2019
14. KIPP Ignite Academy	KIG	Series 2020/22
15. KIPP Promesa Prep	KPP	Series 2020/22

KSPS Demographics include: Hispanic - 75%; Black, not Hispanic - 16%; 2 or More Races - 7%; Asian - 1%; Decline - 1%; 88% FRL; 25% ELL; and 13% Special Education.

Updated financials for the financing reflecting the new schools and project scope are included as Exhibit A.

**TEFRA Hearing:** A Tax Equity and Fiscal Responsibility Act (TEFRA) hearing for this financing was held on Thursday February 24, 2022. No public comments were received. The TEFRA resolution is in place for 12 months.

**Proposed CSFA Action:** Staff recommends the Board adopt Resolution 22-52 to amend the definition of “Project” in the Bond Indenture and Loan Agreement related to the 2020 KIPP SoCal Bonds to include KIPP Scholar Academy, KIPP Comienza Community Prep and KIPP Ignite Academy so that they can benefit from bond proceeds of the 2020 Bonds.

**APPENDIX A:**

## ESTIMATED BUDGET PROJECTIONS

### KIPP SoCal Public Schools

Multi-Year Financial Report (Related Schools)

Multi-Year OG Bond Format

As of September 30, 2022

Income Statement	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
	Actual	Actual	Actual	Actual	Projected	Projected	Projected
<b>REVENUE</b>							
<i>General Purpose Funding</i>							
Revenue Limit State-Aid	47,656,806	55,665,131	55,074,931	58,815,705	67,954,339	75,547,186	82,019,553
Prop 30 - Education Protection Account	6,184,434	3,766,667	8,947,914	12,086,565	9,759,481	10,128,705	10,272,891
In Lieu of Property Tax	17,297,493	22,191,369	21,665,571	23,045,393	24,242,764	26,543,701	28,423,126
<b>Total General Purpose Funding</b>	<b>71,138,733</b>	<b>81,623,167</b>	<b>85,688,416</b>	<b>93,947,663</b>	<b>101,956,584</b>	<b>112,219,592</b>	<b>120,715,570</b>
<i>Federal Revenue</i>							
SPED - IDEA	1,082,854	1,131,280	1,211,973	1,501,969	1,544,284	1,567,570	1,618,970
Federal Nutrition Program	3,562,567	4,722,812	2,922,468	4,079,639	5,544,381	6,036,004	6,502,575
Title I Funding	2,916,863	3,051,278	3,281,561	3,363,337	3,323,942	3,442,307	3,558,061
Other Title Funding	724,297	885,572	1,193,123	1,376,251	1,001,139	1,013,058	1,026,396
Other Federal	420,635	501,629	10,543,630	25,424,522	6,980,469	4,541,963	-
<b>Total Federal Revenue</b>	<b>8,707,216</b>	<b>10,292,572</b>	<b>19,152,756</b>	<b>35,745,717</b>	<b>18,384,215</b>	<b>16,600,902</b>	<b>12,706,002</b>
<i>Other State Revenue</i>							
State Lottery	1,675,381	1,634,439	2,036,719	2,044,212	1,765,675	1,796,342	1,877,585
Special Education	4,201,604	4,635,968	5,273,041	5,621,182	7,357,311	7,539,463	8,032,473
Charter School Facility Grants - SB740 State	6,231,420	6,401,887	7,275,030	7,834,633	8,392,066	8,867,068	9,151,770
State Nutrition Reimbursement	245,397	349,659	207,395	268,989	1,475,611	1,606,331	1,730,671
Other State Revenue	3,520,828	2,442,679	3,694,215	8,133,825	27,007,185	17,241,491	18,002,008
<b>Total Other State Revenue</b>	<b>15,874,630</b>	<b>15,464,633</b>	<b>18,486,399</b>	<b>23,902,840</b>	<b>45,997,848</b>	<b>37,050,695</b>	<b>38,794,487</b>
<i>Other - Local Revenue</i>							
Donations and Grants	4,933,731	7,380,533	372,926	1,627,495	415,000	140,000	-
KIPP Foundation-CSP Grant	1,243,514	692,140	103,470	-	200,000	650,000	650,000
Other Local Revenue	701,802	288,928	301,656	575,386	231,300	253,821	270,063
<b>Total Other Local Revenue</b>	<b>6,879,047</b>	<b>8,361,600</b>	<b>778,052</b>	<b>2,202,882</b>	<b>846,300</b>	<b>1,043,821</b>	<b>920,063</b>
<b>TOTAL REVENUE</b>	<b>102,599,627</b>	<b>115,741,972</b>	<b>124,105,622</b>	<b>155,799,102</b>	<b>167,194,947</b>	<b>166,915,010</b>	<b>173,136,122</b>
<b>EXPENSE</b>							
<i>Certificated Salaries</i>							
Certified Teacher Salaries	27,637,290	29,644,029	33,208,339	33,933,320	38,857,639	39,040,642	41,264,056
Other Certificated Pupil Support	1,951,021	2,435,854	2,564,642	2,667,446	3,637,777	3,694,702	3,828,476
Certificated Administrators	3,592,161	3,557,185	3,757,252	3,840,394	4,091,500	4,676,619	4,802,505
Other Certificated, Non-Supervisory	1,990,840	2,051,481	1,452,720	1,447,100	2,154,664	2,001,557	2,146,152
<b>Total Certificated Salaries</b>	<b>35,171,313</b>	<b>37,688,548</b>	<b>40,982,953</b>	<b>41,888,261</b>	<b>48,741,580</b>	<b>49,413,520</b>	<b>52,041,189</b>
<i>Classified Salaries:</i>							
Non-Certificated Instructional Aides	4,108,186	5,050,440	4,967,706	6,567,116	11,334,890	10,057,167	10,508,724
Technical, Clerical, Office Staff	2,845,741	3,206,144	3,202,295	3,323,217	3,799,002	3,821,514	3,869,142
<b>Total Classified Salaries</b>	<b>6,953,928</b>	<b>8,256,584</b>	<b>8,170,001</b>	<b>9,890,333</b>	<b>15,133,892</b>	<b>13,878,681</b>	<b>14,377,866</b>
<i>Employee Benefits</i>							
Pension Contributions	373,541	411,117	399,239	451,593	630,215	596,439	610,966
FICA	2,460,690	3,329,028	3,543,495	3,757,912	4,611,310	4,603,719	4,836,686
Medical/Insurance/SUI	3,832,972	4,388,916	4,656,513	5,603,156	6,861,169	7,000,881	7,615,335
Workman's Comp	452,393	473,403	490,663	621,143	1,004,312	1,011,685	1,069,228
401(k) Contributions	758,635	762,278	927,104	1,056,306	1,522,436	2,080,526	2,185,643
Other Employee Benefits	219,441	312,312	251,438	368,019	380,000	401,000	409,000
<b>Total Employee Benefits</b>	<b>8,097,672</b>	<b>9,677,053</b>	<b>10,268,452</b>	<b>11,858,130</b>	<b>15,009,442</b>	<b>15,694,250</b>	<b>16,726,858</b>
<i>Supplies &amp; Materials</i>							
Textbooks/Instructional Resources	640,817	1,257,168	746,385	1,388,667	1,465,000	1,210,640	1,237,277
Instructional Materials & Supplies	1,793,964	1,883,287	2,318,791	4,165,553	10,064,000	4,047,025	4,165,888
<i>Non-Capitalized Equipment</i>							
Classroom Technology	1,063,456	911,202	3,635,856	929,946	985,000	1,006,543	1,028,682
Classroom Software	502,702	573,660	527,178	720,309	732,000	765,885	787,405
Classroom Furniture	720,407	418,862	372,829	970,353	760,000	502,869	433,467
Staff/Office Technology & Equipment	704,578	700,799	941,945	1,950,683	1,148,000	1,169,124	1,171,736
Food Service	4,118,505	5,054,671	2,677,673	4,700,034	5,609,658	5,969,417	6,341,605
<b>Total Supplies &amp; Materials</b>	<b>9,544,429</b>	<b>10,799,648</b>	<b>11,220,658</b>	<b>14,825,544</b>	<b>20,763,658</b>	<b>14,671,503</b>	<b>15,166,060</b>
<i>Operating Services</i>							
General Liability Insurance	233,069	275,376	298,051	472,229	509,300	498,700	512,000
Utilities (Gas, Electric, Water)	812,707	850,406	670,486	1,256,236	1,402,000	1,463,172	1,519,810
Other Operations/Housekeeping Services	2,867,556	2,568,579	1,789,081	5,211,697	5,490,000	5,566,472	5,737,713
Repairs & Maintenance (Non-Cap)	2,218,442	2,417,075	1,939,530	4,159,528	3,730,000	3,450,434	3,556,540
Equipment/Copier Leases	734,853	647,506	526,399	843,180	751,000	792,619	810,058
Audit & Legal, Payroll & Banking	264,037	321,899	391,979	370,505	780,031	438,099	453,418
Instructional Consulting	1,473,122	1,486,310	610,482	3,512,544	2,862,000	2,350,380	2,395,313
License & Authorizer Fees, Other Dues/Fees	1,396,216	1,683,655	1,778,078	1,744,294	1,542,100	1,653,627	1,755,074
Special Education Services	1,546,773	1,976,369	1,325,055	2,462,415	2,176,181	2,252,748	2,333,697
Professional Development & Recruitment	957,316	691,684	429,596	632,041	717,000	502,641	513,695
Local Field Lessons	931,272	330,303	80,810	384,588	836,000	800,082	838,109

Communications/Internet	556,776	898,094	2,991,955	2,040,933	615,600	667,970	715,919
Misc. Operating Expenses	1,116,124	921,189	530,304	2,082,310	1,396,800	729,920	731,327
Other Outgoing	294,990	79,862	136,623	60,948	2,890,000	6,890,000	6,060,000
<b>Total Operating Services</b>	<b>15,403,253</b>	<b>15,148,308</b>	<b>13,498,430</b>	<b>25,233,448</b>	<b>25,698,012</b>	<b>28,056,864</b>	<b>27,932,673</b>
Related Schools Existing Lease Payments	1,127,451	1,498,696	1,677,941	544,196	605,948	1,609,747	1,111,865
<b>TOTAL OPERATING EXPENSES</b>	<b>76,298,045</b>	<b>83,068,836</b>	<b>85,818,435</b>	<b>104,239,912</b>	<b>125,952,532</b>	<b>123,324,565</b>	<b>127,356,511</b>

<b>Change in Net Assets for Lease Payments/Debt Service</b>	<b>26,301,582</b>	<b>32,673,135</b>	<b>38,287,187</b>	<b>51,559,189</b>	<b>41,242,415</b>	<b>43,590,444</b>	<b>45,779,611</b>
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<i>Rent</i>							
Ground Lease Payments	606,968	616,767	864,954	1,120,362	1,164,944	1,177,714	1,187,996
Series 2014 Base Rental Payments	1,913,656	1,915,763	1,911,838	1,912,088	1,916,306	1,914,288	1,911,238
Series 2015 Base Rental Payments	1,825,050	1,820,656	1,820,719	1,825,056	1,823,488	1,821,194	1,823,175
Series 2017 Base Rental Payments	2,699,960	2,697,453	2,698,942	2,699,227	2,698,307	2,696,182	2,699,551
Series 2019 Base Rental Payments	-	333,068	1,629,949	3,001,317	2,996,224	2,994,875	2,992,023
Series 2020 Base Rental Payments	-	-	-	221,300	815,312	1,891,124	1,891,047
<b>Total Debt Service</b>	<b>7,045,634</b>	<b>7,383,708</b>	<b>8,926,401</b>	<b>10,779,350</b>	<b>11,414,580</b>	<b>12,495,377</b>	<b>12,505,029</b>
Repair & Replacement Fund & Bond Fees	379,988	522,429	582,010	279,333	554,438	481,230	72,652
Other Rent Expense	2,379,930	1,055,761	1,019,035	2,187,515	779,419	625,247	674,815
<b>Total Other Facilities Expense</b>	<b>2,759,918</b>	<b>1,578,190</b>	<b>1,601,045</b>	<b>2,466,848</b>	<b>1,333,858</b>	<b>1,106,477</b>	<b>747,467</b>
<b>Remaining Change in Net Assets</b>	<b>16,496,029</b>	<b>23,711,238</b>	<b>27,759,742</b>	<b>38,312,991</b>	<b>28,493,978</b>	<b>29,988,591</b>	<b>32,527,115</b>

KIPP SoCal Management Fee	14,993,513	21,777,339	18,582,347	23,174,536	22,927,975	23,312,754	24,186,149
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<i>Coverage Analysis</i>							
Coverage Ratio Before Management Fee	3.73	4.43	4.29	4.78	3.61	3.49	3.66
Coverage Ratio After Management Fee	1.60	1.48	2.21	2.63	1.60	1.62	1.73
<i>Cash</i>							
Ending Cash Balance	18,491,744	21,937,983	22,504,564	35,024,790	56,920,594	64,890,174	69,882,804
Days Cash on Hand	79	82	86	108	151	176	183

<i>Additional Expenses</i>							
Depreciation	582,947	829,021	911,127	990,386	1,066,345	655,056	462,281
Amortization Expense	-	-	-	-	-	66,250	66,250
Indirect Costs	-	-	-	-	-	-	-
Interest Expense	6,417	6,000	15,500	22,625	16,625	16,625	16,625
<b>Total Additional Expenses</b>	<b>589,363</b>	<b>835,021</b>	<b>926,627</b>	<b>1,013,011</b>	<b>1,082,970</b>	<b>737,931</b>	<b>545,156</b>