

M E M O R A N D U M

Staff Summary No. 5

Date: December 15, 2022
To: Members of the California School Finance Authority
From: Katrina M. Johantgen, Executive Director
Subject: Resolution No. 22-53 – Approving the Restructuring of the 2017 River Springs Series A&B Bond Documents

River Springs Charter School (RSCS) is seeking modifications to bond documents related to its 2017 bond issuance. The amendments will substitute River Springs Facilities III LLC as the borrower under the Loan Agreement. The new borrower will then enter into new lease agreements with RSCS. At the time of issuance in 2017, RSCS was offering exclusively non-classroom-based instruction. However, as RSCS has now begun offering classroom-based instruction at the 2017 Bond-financed facilities, conversion to a lease structure will allow RSCS to apply for reimbursement grants under the Charter School Facility Grant Program (SB740) in the same manner as other charter schools operating similar classroom-based facilities. Allowing this restructuring while preserving the original 2017 Bonds avoids the substantial negative savings (over \$2 million) of a full refunding of the 2017 Bonds into a new bond issue. As these changes are outside of the duties outlined in the Executive Director’s delegation authority, these amendments must be brought to the board for approval. Assuming board approval, an Amended and Restated Indenture and Amended and Restated Loan Agreement will be executed.

Financing Approval Background: CSFA has issued four previous bond financings for RSCS, with one additional series of bonds anticipated in a subsequent agenda item.

| Issuance | Year | Amount | Final Maturity |
|--------------------------------------|-------------|---------------|------------------------------|
| River Springs | 2015 | \$28,350,000 | Refinanced by 2022 C&D Bonds |
| River Springs | 2017 | \$23,995,000 | 7/1/2052 |
| River Springs A&B | 2022 | \$10,845,000 | 7/1/2061 |
| River Springs C&D (Cinderella Bonds) | 2022 | \$25,285,000 | 7/1/2046 |

The 2015 Bonds, used to finance the acquisition or construction of facilities for RSCS, were refinanced with the 2022 C&D Bonds. The 2017 Bonds (currently proposed for restructuring) also financed the acquisition or construction of facilities, as did the 2022 A&B Bonds. The pledge securing the 2017 and 2022 Bonds is essentially a parental pledge – investors receive the benefit of a pledge of revenues from the entire RSCS countywide organization including revenue from all its facilities as well as from the network’s homeschool programs, not just from facilities financed with bond proceeds. As such no new schools need to be added to the financing documents with these new updates.

The 2017 Bonds financed three facilities, used exclusively for non-classroom-based education at that time and up through the most recent 2021-22 fiscal year:

| <u>Facility Name</u> | <u>Program Name</u> | <u>Original 2017</u> | | <u>Current Enrollment</u> | <u>Status in 21-22</u> | <u>Status in 22-23</u> | <u>Status in 23-24</u> |
|---------------------------|------------------------------------|----------------------|-------------------|---------------------------|------------------------|------------------------|------------------------|
| | | <u>Project Cost</u> | <u>% of Total</u> | | | | |
| Bear River Student Center | Da Vinci Academy | \$ 7,500,000 | 33.50% | 656 | NCB | CB | CB |
| Temecula Student Center | Da Vinci Academy | 10,285,000 | 45.95% | 592 | NCB | NCB | CB |
| Flabob Airport Facility | Flabob Airport Preparatory Academy | 4,600,000 | 20.55% | 110 | NCB | NCB | CB |
| Total 2017 Project | | \$ 22,385,000 | 100.00% | 702 | | | |

For Temecula and Bear River, the 2017 Bonds financed the acquisition of the entire facility and land parcel, each of which were previously leased by RSCS and used for non-classroom-based education. For Flabob, the 2017 Bonds financed the construction of the 12-classroom Flabob Airport Preparatory Academy on land leased from the Flabob Airport. About 80% of the project was the acquisition of two existing buildings, and 20% was the construction of a school facility on leased airport land:

| <u>Project</u> | <u>Street Address</u> | <u>Description of Project</u> |
|------------------------|---|--|
| Flabob Airport Project | 5580 42 nd Street, Jurupa Valley, California | Installation of twelve modular buildings, an approximately 4,000 square foot airplane hangar, and site improvements, totaling approximately 15,248 square feet |
| Bear River Project | 26800 Newport Road, Menifee, California | Acquisition of the Bear River Facility, as described below |
| Temecula Project | 43040 Margarita Road, Temecula, California | Acquisition of the Temecula Facility, as described below |

In the current 2022-23 year, the Bear River Student Center is now offering classroom-based education via its Da Vinci Academy program, and in school year 2023-24, the other two 2017 Bond-financed facilities will also begin offering classroom-based education at a second Da Vinci Academy at Temecula Student Center as well as Flabob Preparatory Airport Academy respectively. As such, after this year, all three of the facilities financed with the 2017 Bonds will be offering classroom-based education, although Temecula and Bear River will also continue serving some non-classroom-based students (Temecula with the Renaissance Real World Academy, and Bear River with the KEYS non-classroom-based program). Additionally all three programs currently meet eligibility requirements for receiving SB 740 funding.

School Operations Background: River Springs Charter School (RSCS) opened in 2006 in Riverside County with a charter approved by the Riverside County Office of Education (RCOE). Its most recent charter was approved by the RCOE in 2018 and expires on June 30, 2025 (pursuant to a two-year charter extension in Assembly Bill 130). RSCS serves TK-12 students throughout Riverside County primarily through a network of California-credentialed Homeschool Education Specialists and in-person academy teaching and teachers at 18 regional student centers. Based on enrollment numbers, RSCS is one of the largest charter schools in the state and is accredited by the Western Association of Schools and Colleges. RSCS is a single county-wide charter with a single CDS code vs. members in an obligated group or network. Because RSCS has county-wide authorization, it can open up learning center facilities in different locations throughout Riverside County under the same charter, subject to approval by RCOE.

RSCS began operation in 2006 as a fully non-classroom-based charter school, including both full homeschool and partial homeschool with some physical classes held at resource centers several days per week. Over time, and in alignment with its personalized learning model offering multiple options for its students, RSCS began offering more hybrid instruction with additional classroom participation to meet parent and student demand. Beginning in this 2022-23 school year, RSCS is now offering classroom-based instruction 4-5 days per week at 6 of its 18 locations, totaling approximately 35-39% of total average daily attendance. While RSCS plans to add two additional classroom-based locations in 2023-24 for a total of 8 of 18 physical locations, the primary model of instruction at RSCS is and will remain non-classroom-based. Two other independent charter schools within the River Springs network (Citrus Springs and Vista Springs) have been successfully offering similar classroom-based programs as a subset of overall non-classroom-based instruction since 2016-17. RSCS non-classroom-based and new classroom-based programs include:

| Name | Address | Program Type (Bold = Classroom-Based) | Ownership |
|-------------------------------|---|--|--|
| Bear River Student Center | 26800 Newport Road, Menifee | Da Vinci Academy , Keys | Leased from LLC (Following Proposed 2017 Bond Restructuring) |
| Flabob Airport Student Center | 5580 42 nd Street, Riverside | Flabob Airport Preparatory Academy (classroom-based starting 2023-24) | Leased from LLC (Following Proposed 2017 Bond Restructuring) |
| Temecula Student Center | 43040 Margarita Rd, Temecula | Da Vinci Academy (classroom-based starting 2023-24); Renaissance Real World Academy | Leased from LLC (Following Proposed 2017 Bond Restructuring) |
| iShine Student Center | 42145 Lyndie Lane, Temecula | iShine Mosaic Academy , Homeschool Enrichment | Leased from LLC (2022CD Bonds) |
| Magnolia Student Center | 4020 Jefferson St, Riverside | Magnolia Academy | Leased from LLC (2022CD Bonds) |
| Pathfinder Student Center | 4260 Tequesquite Av, Riverside | Homeschool enrichment | Leased from LLC (2022CD Bonds) |
| Murrieta Student Center | 43040 Margarita Rd, Temecula | Da Vinci Academy; Renaissance Real World Academy | Leased from LLC (2022AB Bonds) |
| Palm Academy | 81840 Avenue 46, Indio | Palm Academy | Leased from LLC (2022AB Bonds) |
| Hemet Quest Student Center | 760 W. Acacia Avenue, Hemet | Quest Academy | Leased |
| Renaissance Valley Academy | 1091 West Esplanade, Hemet | Renaissance Real World Academy ; Homeschool Enrichment | Leased |
| Corona Student Center | 510 West Second St, Corona | Homeschool Enrichment; Mosaic Academy | Leased |
| Del Rio – Perris | 745 N. Perris Boulevard, Perris | Del Rio – Perris | Leased |
| Hemet Learning Center | 105 N. Girard Street, Hemet | Homeschool Enrichment | Leased |
| Keys Corona | 1861 California Ave, Corona | Keys | Leased |
| Keys Hemet | 760 W. Acacia Ave, Hemet | Keys | Leased |
| Keys Temecula | 27477 Enterprise Cir, Temecula | Keys | Leased |
| Riverside Student Center | 3050 Chicago Ave, Riverside | Homeschool Enrichment; Mosaic Academy | Leased |
| Temecula Resource Center | 27477 Enterprise Cir, Temecula | Homeschool Enrichment | Leased |

The combined demographics for the schools include:

| Ethnicity | Percent | Subgroup | Percent |
|--------------------|----------------|---------------------------------|----------------|
| Hispanic or Latino | 43.10% | Socioeconomically Disadvantaged | 56.50% |
| White | 41.60% | Students with Disabilities | 14.00% |
| African American | 5.30% | Homeless Youth | 5.40% |
| Other | 10.00% | English Learners | 4.30% |

Enrollment projections for the obligated group include:

**RIVER SPRINGS CHARTER SCHOOL
HISTORICAL & PROJECTED ENROLLMENT**

| Grade | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | 2026-27 |
|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| TK/K | 744 | 685 | 739 | 779 | 797 | 814 | 825 |
| 1 | 642 | 609 | 657 | 692 | 708 | 724 | 734 |
| 2 | 698 | 568 | 612 | 645 | 659 | 674 | 684 |
| 3 | 679 | 627 | 675 | 712 | 728 | 744 | 755 |
| 4 | 673 | 570 | 614 | 647 | 661 | 676 | 686 |
| 5 | 675 | 594 | 640 | 675 | 690 | 705 | 715 |
| 6 | 660 | 611 | 659 | 695 | 711 | 727 | 737 |
| 7 | 697 | 599 | 645 | 680 | 695 | 711 | 721 |
| 8 | 658 | 566 | 610 | 643 | 657 | 672 | 682 |
| 9 | 405 | 334 | 359 | 379 | 387 | 396 | 402 |
| 10 | 336 | 261 | 281 | 297 | 304 | 311 | 315 |
| 11 | 285 | 225 | 241 | 254 | 260 | 266 | 270 |
| 12 | 211 | 195 | 211 | 222 | 227 | 232 | 235 |
| Total | 7,363 | 6,444 | 6,943 | 7,320 | 7,484 | 7,652 | 7,761 |

Classroom Based vs. Non-Classroom-Based Instruction: California charter schools can offer two different types of student instruction: (a) **classroom-based** and (b) **non-classroom-based**. All instruction and resulting average daily attendance falls into one of these two categorizations.

Classroom-based instruction is defined in Education Code section 47612.5(e)(1) as educational activities under the immediate supervision and control of a credentialed teacher. Attendance for classroom-based instruction is measured by physical attendance at a school site.

Non-classroom-based instruction is defined in Education Code section 47612.5(d)(1) as including but not limited to independent study, home study, work study, and distance and computer-based education. The same state standards apply for both classroom-based and non-classroom-based instruction regarding what is taught and how student progress is assessed, but the methods can vary widely. In other words, any form of instruction that is not in the classroom under direct teacher supervision where attendance is measured by seat time is considered non-classroom-based instruction. Attendance for non-classroom-based instruction is measured by work completed, using learning records prepared and approved by credentialed teachers. Programs offering several days per week of in-classroom instruction, but with attendance still measured based on work completed and not on physical seat-based attendance, are still considered non-classroom-based instruction.

Classroom-based instruction requires both 80% in-person instruction offered and 80% attendance measured by physical attendance (not by work completed).

Local Control Funding Formula (LCFF) funding is the same for both instructional methods, although there are some non-LCFF categorical programs (including the Charter School Facility Grant Program) that only fund based on classroom-based instruction, as discussed below.

California charter schools have historically tended to be either 100% classroom-based or 100% non-classroom-based, where non-classroom-based included home schooling and virtual (online) instruction, and often included physical resource centers offering certain classes 1-2 days per week. Over the past 10 years, however, increasing numbers of charter schools have begun offering more “hybrid instruction” to meet varying student and parent needs, with a variety of programs offering everything from full homeschool to 5-day-a-week in-person classroom-based instruction. However, there is currently no statutory or regulatory category for “hybrid” instruction, only “classroom-based” and “non-classroom-based” instruction.

Charter schools like RSCS offering this type of hybrid model therefore can have a portion of their instruction and ADA be labelled as classroom-based, and the rest be considered non-classroom-based instruction and ADA. Such is the case with Citrus Springs and Vista Springs, which have both been operating limited classroom-based programs and generating classroom-based ADA since 2016-17, in addition to their non-classroom-based programs. Note that there is no government agency that tracks and validates whether a school's programs and ADA are classroom-based or non-classroom-based. Instead, each school makes that determination on its own based on the instruction that it provides at each site.

The Charter School Facility Grant Program also funds reimbursement for leasing facilities that are used to generate classroom-based ADA. Citrus Springs and Vista Springs have successfully accessed the Charter School Facility Grant Program since 2016-17 to get reimbursed for rental expenses associated with facilities that house their classroom-based programs that generate classroom-based ADA.

Restructuring Description: The proposed restructuring of the 2017 Bonds involves replacing the existing direct Loan Agreement between CSFA and RSCS with (a) a new Amended and Restated Loan Agreement between CSFA and the new River Springs Facilities III LLC, and (b) three new Lease Agreements between River Springs Facilities III LLC and RSCS relating to each of the 2017 Facilities. The existing 2017 Bonds themselves will not be refinanced or reissued, although some revisions and amendments to the Indenture and other bond documents will be required to account for the change in structure and to ensure that CSFA and bondholder security is not negatively affected.

By restructuring the 2017 Bonds, all RSCS bond-financed facilities will now be aligned into an LLC structure, allowing RSCS to participate in the same Charter School Facility Grant Program as all other California charter schools offering classroom-based instruction in CSFA bond-financed facilities using an LLC structure. This restructuring approach avoids the substantial negative savings of a full refunding of the 2017 Bonds.

While certain changes to bond documents and financing structures can be approved by the CSFA Executive Director without the item needing to return to the Board it was the opinion of issuer's counsel, in this case the Attorney General's Office, that the changes proposed here did not fit under that delegation resolution.

CSFA Recommendation: Staff recommends the Board adopt Resolution 22-53 approving the execution and delivery of the Amended and Restated Indenture and Amended and Restated Loan Agreement to substitute River Springs Facilities III LLC as the borrower and provide for the Series 2017 Facilities to be leased to River Springs Charter School, and authorizes the distribution of the Supplement to the Limited Offering Memorandum.