

\$15,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (AUTHORITY)
REVENUE BONDS
(STEM PREPARATORY SCHOOLS – OBLIGATED GROUP)
SERIES 2023A \$14,000,000 (TAX-EXEMPT) AND 2023B \$1,000,000 (TAXABLE)
ITEM # RESOLUTION 23-09
STAFF SUMMARY 4

EXECUTIVE SUMMARY

Applicant/Borrower:	3200 Adams Holding Corp.	Par Amount Requested:	Not-to-Exceed * \$15,000,000
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Financing Term: Fixed rate, up to 40-year financing, 10-year par call, with taxable bonds amortized first	Projected Interest Rate: 5.50%
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Applicant Description: 3200 Adams Holding Corp., a California nonprofit corporation and organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, is the borrower. The Borrower was formed for the specific purpose of supporting STEM Preparatory Schools, Inc.

Type of Financing: Tax-Exempt and Taxable Revenue Bonds

Project User:	STEM Preparatory Schools, Inc.	County Served:	Los Angeles County
District in Which Project is Located:	Los Angeles Unified School District	Charter Authorizer:	Los Angeles Unified School District

Financing Description: Proceeds will be used to finance and/or refinance the cost of acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of educational facilities located in Los Angeles; pay capitalized interest; fund related working capital and a debt service reserve fund; and pay certain costs of issuance.

Project Site: 1) 3200 West Adams Blvd. Los Angeles, 90018; 2) 1371 and 1374 W. 35th Street and 3502 Normandie Avenue Los Angeles, 90007

Financing Team:		Financing Details:	
Bond Counsel:	Kutak Rock LLP	Type of Issue:	Charter School Revenue Bonds
Underwriter:	Stifel Nicolaus & Co.	Tax Status:	Tax-Exempt & Taxable
Borrower's Counsel:	Musick Peeler	Maturity:	2063
Underwriter's Counsel:	Stradling	Credit Enhancement:	Yes
Issuer's Counsel:	Office of the Attorney General	Credit Rating:	BBB-/BB+ (TBD)
Financial Advisor:	Campanile Group, Inc.	Fees:	See Costs of Issuance Table
Bond/ Trustee:	Wilmington Trust NA		

CSFA Analyst: Katrina Johantgen	Date of Staff Report: March 27, 2023
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Date of CSFA Board Meeting: March 30, 2023	Resolution Number: 23-09
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Staff Recommendation: Staff recommends the Authority Board approve Resolution Number 23-09 authorizing the issuance of Revenue Bonds in an amount not to exceed \$15,000,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, and/or equipping of certain educational facilities located in Los Angeles County for use by STEM Preparatory Schools, Inc.

BACKGROUND AND HISTORY

STEM Preparatory Schools, Inc. (STEM) serves approximately 1,300 K-12 students in three schools:

1. STEM Preparatory Elementary School (serving grades K-5) (SPES)
2. Crown Preparatory Academy (serving grades 5-8) (CPA)
3. Math and Science College Preparatory (serving grades 9-12) (MSCP)

STEM's first charter, for MSCP, was approved by Los Angeles Unified School District (LAUSD) in 2012 and opened in fall 2013. In 2015 MSCP merged with Crown Preparatory Academy (CPA), an existing LAUSD authorized charter founded in 2010. The SPES charter was approved in 2018 and the school opened that fall.

Since opening, STEM schools and staff have received awards and recognition including:

1. 2016 Latino Non-Profit of the Year
2. Gold Ribbon School
3. California Charter School Teacher of the Year (California Charter Schools Association)
4. Hart Vision Leader of the Year Award (California Charter Schools Association)
5. Riordan Foundation Support
6. Northrup Grumman Support

Charter terms for the schools include:

School	Authorizer	Grades Served	School Year Established	Original Petition Approved	# of Renewals	Most Recent Renewal	Charter Expiration
Obligated Group Schools							
STEM Preparatory Elementary School "SPES"	LAUSD	K-5	2018-19	2017	-	-	6/30/2025
Math and Science College Preparatory ("MSCP")	LAUSD	9-12	2013-14	2012	1	Oct-16	6/30/2024
Non-Obligated School							
Crown Preparatory Academy ("CPA")	LAUSD	5-8	2010-11	2010	2	Oct-19	6/30/2027

The demographics for the schools include:

	2021 - 22 Demographics		
	Obligated Group		Non-Obligated School
	STEM Preparatory Elementary	Math & Science College Preparatory	Crown Prep Academy
Free-Reduced Lunch	88.2%	94.9%	97.7%
English Language Learner	24.3%	13.4%	31.2%
Students with Disabilities	10.7%	11.1%	7.0%
African American	17.2%	8.1%	10.0%
American Indian or Alaska Native	0.3%	0.0%	0.0%
Latino/Hispanic	79.9%	90.9%	88.6%
Asian/Filipino/Pacific Islander	0.6%	0.8%	0.7%
White	0.9%	0.2%	0.5%

The historical, current and projected enrollment for the financed schools are below:

STEM Prep Elementary										
Grade Level	Historical					Current	Projected			
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
TK/K	-	56	76	67	57	59	59	59	59	59
1st Grade	-	40	56	60	54	52	52	52	52	52
2nd Grade	-	24	50	61	61	48	48	48	48	48
3rd Grade	-	27	36	52	70	58	58	58	58	58
4th Grade	-	-	26	45	48	67	67	67	67	67
5th Grade	-	-	-	28	48	47	47	47	47	47
Totals	-	147	244	313	338	331	331	331	331	331

Math & Science College Preparatory										
Grade Level	Historical					Current	Projected			
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
9th Grade	141	128	143	142	149	148	148	148	148	148
10th Grade	140	131	124	138	135	140	140	140	140	140
11th Grade	173	135	129	123	130	128	128	128	128	128
12th Grade	87	155	128	125	116	124	124	124	124	124
Totals	541	549	524	582	530	540	540	540	540	540

PROJECT DESCRIPTION

The proceeds of the bonds will be used to: (1) finance and/or refinance the acquisition, construction, expansion, rehabilitation, renovation, furnishing and equipping of certain charter school educational facilities for MSCP, located at 3200 West Adams Blvd, Los Angeles, (2) finance and/or refinance the acquisition, construction, expansion, rehabilitation, renovation, furnishing and equipping of certain charter school educational facilities for SPES, located at 1371 and 1374 W. 35th Street and 3502 Normandie Avenue, Los Angeles; (3) to pay certain expenses incurred in connection with the issuance of the Bonds, and (4) to fund all or a portion of a debt service reserve fund, capitalized interest and related working capital in connection with the Bonds.

A deposit to the Reserve Account for the Series 2023 Bonds in an amount of the Reserve Account Requirement is expected to be funded by proceeds of a grant pursuant to the Authority’s Charter School Facilities Credit Enhancement Program or another similar program administered by the Authority, if approved by the Authority.

Facilities Information				
Site	Landlord	Location	Purpose	Amount
Math and Science College Preparatory	3200 Adams LLC	3200 West Adams Blvd. Los Angeles, 90018	Refinancing of NMTC Loans	\$8,297,941
STEM Preparatory Elementary	1374 W 35 th LLC	1371 and 1374 W. 35 th Street and 3502 Normandie Avenue, Los Angeles, 90007	Refinancing PCSD and LIIF loans	\$2,187,728
Total Estimated Project Costs				\$10,485,669

In 2016, 3200 Adams LLC received a total of \$12,711,044 in New Market Tax Credits (NMTC) loans made or subsequently purchased by ExED Facilities XV LLC and LIIF Sub-CDE XXXVII, LLC.

- Four of the eight NMTC loans were indirectly funded in part by loans made by the Low Income Investment Fund (LIIF) or Pacific Charter School Development, Inc. (PCSD).
- The NMTC loans were used to finance the acquisition and improvement of a 1.78-acre property with two buildings formerly operated as a church and a school.
 - The former church building, comprising approximately 14,282 sf, is two stories and the renovations included converting 8,300 sf former sanctuary into an indoor basketball court.
 - The school building is four stories, comprising approximately 33,224 sf, and includes 28 classrooms, admin offices, faculty lounge, storage spaces and restrooms as well as 89 parking spaces.
- The two NMTC Loans indirectly funded by the LIIF loan have, respectively, a balance of \$3,626,976 with an interest rate of 4.0655% and a balance of \$3,773,475 with an interest rate of 4.1451%, and both have a May 20, 2023, maturity.
- The two NMTC Loans indirectly funded by the PCSD loan have, respectively a balance of \$439,862 with an Interest Rate of 4.0655% and a balance of 457,628 with an interest rate of 4.1451%, and both have a May 20, 2049, maturity.
- The Borrower proposes to refinance the NMTC loans indirectly funded by LIIF and PCSD. The remaining four NMTC loans to 3200 Adams LLC will be cancelled upon the refinancing.
- Separately, in 2018 and 2019, 1374 W 35th LLC received loans from LIIF and PCSD to fund tenant improvements at the SPES leased campus. Improvements included upgrades to HVAC, power and building structure, replacement of windows and classroom doors, new LED lighting, new flooring, and a new ceiling.
- The LIIF loan has a balance of \$876,652 with a 5.92% interest rate and a maturity of December 20, 2024. The PCSD loan has a balance of \$1,311,076, a 3% interest rate and a maturity of June 30, 2023, or any earlier refinancing of the project.

Base debt service coverage ration is substantial at between 4.19x-4.54x.

FINANCING

Borrower: 3200 Adams Holding Corp., a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 is the borrower. The Borrower was formed for the specific purpose of supporting STEM Preparatory Schools, Inc. The borrower is the sole member of 3200 Adams LLC and of 1374 W 35th LLC (the “Landlords”).

Security and Source of Payment

The Series 2023 Bonds and the interest thereon are payable solely out of certain revenues and income received by the Authority or the Bond Trustee pursuant to the Loan Agreement, the Intercepts, and the Obligations issued by the Borrower in an amount equal to the aggregate principal amount of the Series 2023 Bonds pursuant to the Master Indenture.

Funds received by the Trustee pursuant to the 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 lessees, 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 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 2023A (Tax-Exempt)	Series 2023B (Taxable)	CSFA Enhancement Grant	Total
Bond Proceeds				
Par Amount:	\$10,695,000	\$455,000		\$11,150,000
Other Sources:			699,050	\$699,050
Total:	\$10,695,000	\$455,000	\$699,050	\$11,849,050
Uses:	Series 2023A (Tax-Exempt)	Series 2023B (Taxable)		Total
Project Fund Deposit				
NMTC Refinancing	\$8,297,941			\$8,297,941
PCSD Loan Refinancing	\$1,311,076			\$1,311,076
LIIF Loan Refinancing	\$876,652			\$876,652
Subtotal	\$10,485,669			\$10,485,669
Debt Service Reserve Fund			\$699,050	\$699,050
Cost of Issuance	\$209,331	\$455,000		\$664,331
Total	\$10,695,000	\$455,000	\$699,050	\$11,849,050

Total Costs of Issuance*

Expense	Amount
Issuer Fee	\$15,575
Annual Admin Fee	1,673
Agent-for-Sale Fee	6,000
CDIAC Fee	5,000
Issuer's Counsel Fee	8,000
Financial Advisor Fee	85,000
Bond Counsel Fee	85,000
Borrower's Counsel Fee	100,000
Underwriter's/Disclosure Counsel Fee	85,000
Trustee Fee	10,000
Financial Printer Fee	5,000
Underwriter's Discount	195,125
Rating Agency Fee	30,000
Title Insurance Fee	20,000
Appraiser Fee	11,000
Contingency	1,959
Total	\$664,331

*Estimates based on principal amount of \$15,000,000.

Credit Enhancement - There will be a not-to-exceed \$800,000 credit enhancement award for the Borrower, on behalf of Math and Science College Prep Campus and STEM Prep Elementary Campus, for this financing that will be before the Authority Board as subsequent agenda items at the March 30, 2023, meeting. If approved, the enhancement awards will fund up to \$800,000 of the financing's debt service reserve fund, reducing the overall borrowing cost for the Borrower. *The actual award amount will be finalized at pricing of the bonds.*

SALES RESTRICTIONS

The following sales restrictions will apply to the financing given either the below-investment grade rating of "BB+" or an investment grade rating of BBB-. The Authority's sales restrictions may be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

Sub-Investment Grade

1. Bonds will be in minimum denominations of \$250,000;
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 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 \$100,000; 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 Education Code section 17199.4.

Investment Grade

1. Bonds will be in minimum denominations of \$25,000 (expected 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 Authority's Webpage on March 23, 2023. The TEFRA hearing will take place on March 30, 2023, prior to the Board meeting, and no comments are anticipated. If any are received, they will be reported at the meeting.

Due Diligence Undertaken to Date: The financial, operating, and other information concerning the Borrower, the Project, and related matters presented in this Staff Summary were provided by the Borrower, Landlords, Lessee, and Underwriter. The analysis contained herein was prepared by Authority Staff for the limited purpose of determining financial feasibility pursuant to Education Code section 17183.5 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, 3200 Adams Holding Corp, is a California nonprofit public benefit corporation and entities described in Section 501(c)(3) of the Code, and was formed in 2008 to support the Lessee, by, among other things, holding title to property and managing, operating and leasing property.

The Landlords are California limited liability companies formed as single purpose entities solely owned by the Borrower with no assets other than the respective Facility owned or leased by it and its rights under the Lease, which will be assigned to the Trustee. The Landlords were formed for the purpose of owning facilities and are not expected to have any other assets or revenue available to them to make payments due under the Loan Agreement.

STAFF RECOMMENDATION

Staff recommends the board adopt Resolution 23-09, authorizing the issuance of revenue bonds in an amount not to exceed \$15,000,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of educational facilities located in Los Angeles County, California for use by or for the benefit of STEM Preparatory Schools, Inc.

1. **Applicant / Borrower:** 3200 Adams Holding Corp.
2. **Project:** Refinancing
3. **Amount of Financing:** Not to exceed \$15,000,000
4. **Maturity:** 40 years (Not-to-exceed 40 years)
5. **Repayment/Security:** Lease Payments
6. **Preliminary Interest Rate:** 5.50%
7. **Preliminary Cost of Issuance:** The preliminary Costs of Issuance is \$664,331.
8. **Not an Unconditional Commitment:** The Authority resolution shall not be construed as unconditional commitment to finance the Project, but rather the Authority's approval pursuant to the resolution conditioned upon entry by the Authority and Borrower into a loan agreement, in form and substance satisfactory to the Authority 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 that date. Once the approval has expired, the item must return to the Board for new approval.

**APPENDIX A:
SCHOOL GOVERNANCE**

Board of Directors

Carmen Vazquez	Chair
Andrew Kubasek	Treasurer
Desmond Lovell	Secretary/Vice Chair
Dale Henry	Member
Brad Zutaut	Member

Administrators

Dr. Emilio Pack	Chief Executive Officer
Eric Barlow	Chief Operating Officer
Janette Rodriguez-Pack	Chief Academic Officer

APPENDIX B: ESTIMATED BUDGET PROJECTIONS AND ENROLLMENT

STEM Prep - Obligated Group (SPES + MSOP)	Projected 2022-23	Projected 2023-24	Projected 2024-25	Projected 2025-26	Projected 2026-27
Enrollment					
Grades Served	TK-5, 9-12	TK-5, 9-12	TK-5, 9-12	TK-5, 9-12	TK-5, 9-12
Enrollment	871	871	871	871	871
ADA %	91%	91%	95%	95%	95%
Average Daily Attendance ("ADA")	795	793	824	824	824
Revenue					
Local Control Funding Formula Sources	11,888,026	12,483,245	13,488,000	13,989,614	14,269,260
Federal Revenue	2,840,769	2,915,112	1,590,931	1,507,662	1,507,662
Other State Revenue	1,031,630	808,337	1,405,444	1,414,532	1,331,885
SB740 Program Revenue	723,018	714,278	712,419	712,663	719,088
Other Local Revenue	684,728	655,452	679,836	679,836	679,836
Total Revenue	\$17,168,172	\$17,576,424	\$17,876,631	\$18,304,307	\$18,507,731
Expenses					
Certificated Salaries	4,899,939	4,997,938	5,097,897	5,199,854	5,303,852
Classified Salaries	2,101,038	2,143,059	2,185,920	2,229,638	1,979,782
Employee Benefits	2,047,883	2,111,980	2,156,689	2,225,386	2,206,646
Supplies	1,945,450	2,007,097	2,059,347	2,110,509	2,146,717
Operating Services	2,230,920	2,308,792	2,398,713	2,474,270	2,515,326
Depreciation	123,477	119,286	114,194	103,330	84,409
Subordinated Management Fees	2,551,523	2,611,697	2,693,048	2,806,081	2,918,309
Math & Science College Prep Rent - NMTC Lease	453,750	-	-	-	-
STEM Elementary School Rent - Leasehold Improvements	195,737	-	-	-	-
STEM Elementary School Rent - Ground Rent	255,493	255,493	255,493	255,493	264,009
Base Rent - Series 2023 Bonds	-	696,878	694,400	694,725	694,775
Total Expenses	\$16,805,210	\$17,252,219	\$17,655,700	\$18,099,286	\$18,113,825
Net Income	\$362,962	\$324,205	\$220,931	\$205,021	\$393,906
Add Back: Depreciation	123,477	119,286	114,194	103,330	84,409
Add Back: Base Rent	904,980	952,370	949,893	950,218	958,784
Net Operating School Revenue (After Mgmt Fees)	\$ 1,391,419	\$ 1,395,861	\$ 1,285,018	\$ 1,258,569	\$ 1,437,099
Consolidated Base Rent Coverage Ratio (After Mgmt Fees)	1.54x	1.47x	1.35x	1.32x	1.50x
Add Back: Subordinated Management Fees	2,551,523	2,611,697	2,693,048	2,806,081	2,918,309
Net Operating School Revenue	\$ 3,942,942	\$ 4,007,558	\$ 3,978,066	\$ 4,064,649	\$ 4,355,408
Consolidated Base Rent Coverage Ratio	4.36x	4.21x	4.19x	4.28x	4.54x
Cash Flow Projections					
	2022-23	2023-24	2024-25	2025-26	2025-26
Beginning Cash Balance	4,379,138	4,865,577	5,309,068	5,644,194	5,952,545
Plus: Net Income	362,962	324,205	220,931	205,021	393,906
Plus: Depreciation	123,477	119,286	114,194	103,330	84,409
Ending Cash Balance	4,865,577	5,309,068	5,644,194	5,952,545	6,430,859
Total Expenses	16,805,210	17,252,219	17,655,700	18,099,286	18,113,825
Less: Depreciation	(123,477)	(119,286)	(114,194)	(103,330)	(84,409)
Operating Expenses	16,681,733	17,132,933	17,541,506	17,995,956	18,029,416
Days Cash on Hand	106 days	113 days	117 days	121 days	130 days