

\$15,500,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (AUTHORITY) REVENUE BONDS
(ORANGE COUNTY EDUCATIONAL ARTS ACADEMY PROJECT)
SERIES 2023A \$15,000,000 (TAX-EXEMPT) AND 2023B \$500,000 (TAXABLE)
ITEM # RESOLUTION 23-11
STAFF SUMMARY

EXECUTIVE SUMMARY

Applicant/Borrower:	OCEAA Facilities, LLC	Par Amount Requested:	Not-to-Exceed * \$15,500,000
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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: 5.5%
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Applicant Description: OCEAA Facilities, LLC, a California limited liability company whose sole member is 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 Orange County Educational Arts Academy.

Type of Financing: Tax-Exempt and Taxable Revenue Bonds

Project User:	Orange County Educational Arts Academy	County Served:	Orange County
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District in Which Project is Located:	Santa Ana Unified School District	Charter Authorizer:	Santa Ana Unified School District
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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 Santa Ana (Orange County); pay capitalized interest; fund related working capital; and pay certain costs of issuance.

Project Site: 1) 825 N Broadway, Santa Ana, CA 92701; 2) 826 N. Broadway, Santa Ana, CA 92701; and/or 3) 817 N. Broadway, Santa Ana, CA 92701

Financing Team:		Financing Details:	
Bond Counsel:	Kutak Rock LLP	Type of Issue:	Charter School Revenue Bonds
Underwriter:	B.C. Ziegler & Company	Tax Status:	Tax-Exempt & Taxable
Borrower's Counsel:	Young Minney & Corr LLP	Maturity:	2058
Underwriter's Counsel:	Orrick, Herrington & Sutcliffe LLP	Credit Enhancement:	Yes
Issuer's Counsel:	Office of the Attorney General	Expected Credit Rating:	BB
Financial Advisor:	Campanile Group, Inc.	Fees:	See Costs of Issuance Table
Bond/ Trustee:	US Bank Trust Company, National Association		

CSFA Analyst: Robby Biegler	Date of Staff Report: March 27, 2023
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Date of CSFA Board Meeting: March 30, 2023	Resolution Number: 23-11
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Staff Recommendation: Staff recommends the Authority Board approve Resolution Number 23-11 authorizing the issuance of Revenue Bonds in an amount not to exceed \$15,500,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, and equipping of certain educational facilities located in Orange County for use by Orange County Educational Arts Academy.

BACKGROUND AND HISTORY

Orange County Educational Arts Academy (OCEAA) first opened for the 2005-06 school year in Santa Ana with a charter authorized by the Santa Ana Unified School District (SAUSD) and a founding class of 475 students. Currently, OCEAA serves grades K-8 and has an enrollment of 606 students. OCEAA's most recently renewal was in 2020, and the school's charter expires on 06/30/2027.

OCEAA integrates arts education into their core curriculum and offers special arts-emphasized programs. These programs include: weekly Spanish language music lessons; visual arts, theater and dance courses developed from the California Arts Standards for Public Schools; and student performances and exhibitions. In addition to its curriculum emphasis on arts education all OCEAA students are enrolled in the school's two-way bilingual immersion program. OCEAA demographics include:

2022-23 Demographics	Orange County Educational Arts Academy (%)
American Indian / Alaska Native	0.33%
Asian / Pacific Islander / Filipino	1.15%
Black / African American	0.49%
Hispanic	91.93%
White	4.78%
Multiracial / Unspecified	1.32%
Free/Reduced Lunch	64.09%

The historical, current and projected enrollment for OCEAA are below:

Orange County Educational Arts Academy									
Grade Level	Historical				Current	Projected			
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
TK/K	114	108	108	95	107	128	128	128	128
1 st Grade	86	87	88	85	75	88	88	88	88
2 nd Grade	80	80	80	72	80	80	80	80	80
3 rd Grade	70	78	77	78	72	75	75	75	75
4 th Grade	68	67	77	72	74	75	75	75	75
5 th Grade	65	64	62	68	73	74	74	74	74
6 th Grade	50	60	57	54	60	60	60	60	60
7 th Grade	43	41	37	36	35	35	35	35	35
8 th Grade	46	40	39	33	30	30	30	30	30
Total	622	625	625	593	606	645	645	645	645

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, located at 825 N. Broadway, Santa Ana, (2) finance and/or refinance the acquisition, construction, expansion, rehabilitation, renovation, furnishing and equipping of certain charter school educational facilities, located at 826 N. Broadway, Santa Ana, (3) finance and/or refinance the acquisition, construction, expansion, rehabilitation, renovation, furnishing and equipping of certain charter school educational facilities, located at 817 N. Broadway, Santa Ana, (4) to pay certain expenses incurred in connection with the issuance of the Bonds, and (5) 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 will 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.

Facilities Information				
Site	Landlord	Location	Purpose	Amount
OCEAA Main Campus	OCEAA Facilities, LLC	825 N. Broadway	Refinancing (CMFA Bonds)	\$8,260,000
OCEAA Annex Campus	OCEAA Facilities, LLC	826 N. Broadway	Purchase	\$2,500,000
OCEAA Annex Campus	OCEAA Facilities, LLC	826 N. Broadway	. Refinancing (Tenant Improvement Loan)	\$400,000
OCEAA New Campus Expansion	OCEAA Facilities, LLC	817 N. Broadway	Purchase	\$3,600,000
Total Estimated Project Costs				\$14,760,000

In 2008 OCEAA issued \$8,260,000 in bonds through the California Municipal Finance Authority (CMFA) to purchase their main campus at 826 N. Broadway. The campus consists of an approximately 35,632 square-foot building, that includes 23 classrooms, two resource support classrooms, a library, a staff lounge, a staff work room, four administrative offices, a reception area, a nurse's office, an all-purpose room/dining hall, a fully functioning kitchen, storage rooms and a playground, on an approximately 0.818-acre parcel of land. The interest on the outstanding bonds is approximately 7.0%. There will be over \$125,000 of annual savings with this refinancing.

OCEAA is also refinancing a \$400,000 tenant improvement loan that was subsequently used for improvements at the 826 N. Broadway campus.

Additionally, the school is using \$2,500,000 in bond proceeds to acquire and adjacent lease space at 826 N. Broadway that consists of five classrooms and an administrative also. It is also using another \$3,600,000 in proceeds to purchase a 3,122 square foot facility and 7,661 square foot lot at 817 N. Broadway to be used for new classroom and administrative office space.

FINANCING

Borrower: OCEAA Facilities, LLC, a California limited liability company whose sole member is 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 OCEAA.

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 and the Intercept. 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 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 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 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 2023A (Tax-Exempt)	Series 2023B (Taxable)	Total
Bond Proceeds			
Par Amount:	\$14,205,000	\$310,000	\$14,515,000
Prior Reserve Fund:	\$847,100		\$847,100
Credit Enhancement Grant:	\$949,000		\$949,000
Total:	\$16,001,000	\$310,000	\$16,311,100
Uses:	Series 2023A (Tax-Exempt)	Series 2023B (Taxable)	Total
Project Fund Deposit			
Main Campus Refinancing	\$8,260,000		\$8,260,000
Annexed Acquisition	\$2,500,000		\$2,500,000
Annexed Refinancing	\$400,000		\$400,000
New Annexed Acquisition	\$3,600,000		\$3,600,000
Debt Service Reserve Fund	\$949,000		\$949,000
Cost of Issuance:	\$126,943	\$303,492	\$430,435
Underwriter's Discount:	\$163,358	\$3,565	\$166,923
Contingency:	\$1,800	\$2,943	\$4,743
Total	\$16,001,100	\$310,000	\$16,311,100

Total Costs of Issuance*

Expense	Amount
Issuer Fee	\$17,258.00
Annual Admin Fee	2,117.00
Agent-for-Sale Fee	6,000.00
CDLAC Fee	3,000.00
Issuer's Counsel Fee	10,000.00
Financial Advisor Fee	85,000.00
Bond Counsel Fee	85,000.00
Borrower's Counsel Fee	50,000.00
Underwriter's/Disclosure Counsel Fee	65,000.00
Rating Agency Fee (If Applicable)	40,000.00
Trustee Fee	5,500.00
Trustee's Counsel Fee	1,500.00
Financial Printer Fee	5,000.00
Underwriter's Discount	166,923.00
Title Insurance Fee	35,000.00
Appraiser Fee	10,000.00
Contingency	10,000.00
Total	\$597,358.00

**Estimates based on principal amount of \$14,515,000.*

Credit Enhancement - There will be a not-to-exceed \$1,000,000 credit enhancement award for the Borrower, on behalf of Orange County Educational Arts Academy, 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 \$1,000,000 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 the expected below-investment grade rating. The Authority's sales restrictions may be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

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.

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, 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, OCEAA Facilities, LLC, is a California limited liability company whose sole member is Orange County Educational Arts Academy, (the “Lessee”), a California nonprofit public benefit corporation and an entity described in Section 501(c)(3) of the Code, and was formed in 2008 to support the Lessee, by holding title to property, collecting income therefrom, and turning the net income thereof to the Lessee. The Borrower will use a portion of the proceeds of the Series 2023 Bonds to complete the Project.

The Landlord, also OCEAA Facilities, LLC, has no assets other than the Facilities owned or leased by it and its rights under the Lease, which will be assigned to the Trustee. The Landlord 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 board adopt Resolution 23-11, authorizing the issuance of revenue bonds in an amount not to exceed \$15,500,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and equipping of educational facilities located In Orange County, California for use by or for the benefit of Orange County Educational Arts Academy.

- 1. **Applicant / Borrower:** OCEAA Facilities, LLC
- 2. **Project:** Refinancing and Acquisition
- 3. **Amount of Financing:** Not to exceed \$15,000,000
- 4. **Maturity:** 35 years (Not-to-exceed 40 years)

5. **Repayment/Security:** Lease Payments
6. **Preliminary Interest Rate:** 5.5%
7. **Preliminary Cost of Issuance:** The preliminary Costs of Issuance is \$597,358.00.
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	
Scott Overpeck	Chair
Valerie Sullivan	Vice Chair
Ben Stanphil	Secretary
Boris Molina	Member
Dr. Alfonso Bustamante	Member
Carmen Aparicio	Chief Financial Officer
Jessica Reyes	Member
Administrators	
Mike Limon	Executive Director
Vacant	Controller
Scott Warner	School Business Officer with CSMC

**APPENDIX B:
ESTIMATED BUDGET PROJECTIONS AND ENROLLMENT**

	2022-23	2023-24	2024-25	2025-26	2026-27
Enrollment	606	645	645	645	645
Average Daily Attendance (%)	88%	90%	92%	93%	94%
Average Daily Attendance	533	581	593	600	606
Revenue					
State LCFF Revenue	6,136,858	7,283,430	7,697,706	8,040,416	8,389,405
Federal Revenue	1,044,634	743,462	765,222	811,503	837,184
Other State Revenue	2,212,105	2,206,601	2,261,065	2,303,140	2,346,580
Local Revenue	413,800	376,214	387,455	399,034	410,960
SB740 Revenue	657,001	724,075	762,371	793,777	826,382
Total Revenues	\$ 10,464,397	\$ 11,333,782	\$ 11,873,819	\$ 12,347,870	\$ 12,810,510
Expenses					
Certificated Salaries	2,969,558	3,159,532	3,254,318	3,351,948	3,452,506
Classified Salaries	1,884,235	1,959,604	2,000,141	2,073,033	2,116,973
Benefits	1,720,852	1,915,965	1,995,090	2,081,070	2,151,081
Books and Supplies	733,409	634,633	650,736	670,259	690,366
Services and Other Operating Expenses	2,048,283	2,118,770	2,184,456	2,251,193	2,319,894
Base Rent	850,677	850,677	850,677	850,677	850,677
Depreciation	198,141	198,141	198,141	198,141	198,141
Total Expenses	\$ 10,405,155	\$ 10,837,322	\$ 11,133,560	\$ 11,476,321	\$ 11,779,639
Net Income	\$ 59,242	\$ 496,460	\$ 740,259	\$ 871,549	\$ 1,030,872
Plus: Depreciation	198,141	198,141	198,141	198,141	198,141
Plus: Base Rent	850,677	850,677	850,677	850,677	850,677
Net Income Available for Debt Service	\$ 1,108,060	\$ 1,545,278	\$ 1,789,077	\$ 1,920,367	\$ 2,079,690
Base Rent	850,677	850,677	850,677	850,677	850,677
Base Rent Coverage Ratio	1.30	1.82	2.10	2.26	2.44
Beginning Cash	3,054,022	3,113,264	3,609,724	4,349,983	5,221,531
Plus: Net Income	59,242	496,460	740,259	871,549	1,030,872
Ending Cash Balance	\$ 3,113,264	\$ 3,609,724	\$ 4,349,983	\$ 5,221,531	\$ 6,252,403
Total Expenses	\$ 10,405,155	\$ 10,837,322	\$ 11,133,560	\$ 11,476,321	\$ 11,779,639
Less: Depreciation	(198,141)	(198,141)	(198,141)	(198,141)	(198,141)
Operating Expense	10,207,014	10,639,181	10,935,419	11,278,180	11,581,497
Days Cash On Hand	111	124	145	169	197