

\$12,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (AUTHORITY)
CHARTER SCHOOL REVENUE BONDS
(REDDING SCHOOL OF THE ARTS PROJECT)
SERIES 2023A \$11,000,000 (TAX-EXEMPT) AND 2023B \$1,000,000 (TAXABLE)
ITEM # RESOLUTION 23-37
STAFF SUMMARY

EXECUTIVE SUMMARY

Applicant/Borrower:	RSA Facilities, LLC	Par Amount Requested:	Not-to-Exceed * \$12,000,000
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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: 5.75%
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Applicant Description: RSA Facilities, LLC, a California limited liability company the sole member of which is Redding School of the Arts, 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 Redding School of the Arts.

Type of Financing: Tax-Exempt and Taxable Revenue Bonds

Project User:	Redding School of the Arts	County Served:	Shasta County
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District in Which Project is Located:	Columbia Elementary School District	Charter Authorizer:	Columbia Elementary 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/or equipping of educational facilities located in Redding, CA.; pay capitalized interest; fund related working capital and a debt service reserve fund and repair and replacement fund, if necessary; and pay certain costs of issuance.

Project Site: 1) 955 Inspiration Place, Redding, CA 96003 and 2) real property adjacent thereto

Financing Team:		Financing Details:	
Bond Counsel:	Orrick Herrington & Sutcliffe LLP	Type of Issue:	Charter School Revenue Bonds
Underwriter:	B.C. Ziegler and Company	Tax Status:	Tax-Exempt & Taxable
Borrower's Counsel:	Procopio	Maturity:	Not to exceed 2063
Underwriter's Counsel:	Nixon Peabody LLP	Credit Enhancement:	Yes
Issuer's Counsel:	Office of the Attorney General	Credit Rating:	Unrated
Bond Trustee:	BOKF, NA	Fees:	See Costs of Issuance Table

CSFA Analyst: Robby Biegler	Date of Staff Report: August 24, 2023
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Date of CSFA Board Meeting: August 31, 2023	Resolution Number: 23-37
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Staff Recommendation: Staff recommends the Authority Board approve Resolution Number 23-37 authorizing the issuance of Revenue Bonds in an amount not to exceed \$12,000,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, and/or equipping of certain educational facilities located in Shasta County for use by Redding School of the Arts.

BACKGROUND AND HISTORY

Redding School of the Arts (RSA) first opened in Redding in August of 1999, with a curriculum focused on liberal arts education that up to that point was in short supply in far Northern California. RSA currently serves 600 students in grades K-8. In 2022-23 school years, after almost 25 years as a K-8, RSA expanded to include Redding School of the Arts Early College High School (RSAHS), initially serving students in grades 9-10. RSAHS will expand to include grade 11 in the 2023-24 school year and grade 12 in 2024-25. The high school expansion is included in the current RSA charter. Columbia Elementary School District (CESD) approved a 5-year renewal for the RSA charter in 2020. That approval included the addition of grades 9-12. Charter terms for the school and school demographics include:

School	Authorizer	Grades Served	School Year Established	Original Petition Approved	# of Renewals	Most Recent Renewal	Charter Expiration
Obligated Group Schools							
Redding School of the Arts	CESD	K-12	1999-2000	1999	-	2020	6/30/2025

Demographic Identifier	% of Students
American Indian/Alaska Native	0.93%
Asian	5.19%
Black	1.10%
Hispanic	10.56%
Native Hawaiian/Pacific Islander	0.00%
White	65.37%
Two or More Races	16.85%
Socioeconomically Disadvantaged	26.7%
English Learners	1.7%
Students With Disabilities	8.5%
Foster Youth	0.2%
Homeless	1.5%

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

Grade Level	Historical				Projected					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
TK	4	3	5	2	3	2	3	2	2	2
K	76	61	64	72	65	65	62	60	60	60
1	74	73	61	71	72	65	65	62	60	60
2	81	67	61	65	71	71	65	65	61	60
3	68	75	60	65	65	70	69	65	65	61
4	76	66	62	64	65	65	70	69	65	65
5	50	68	47	63	64	65	65	70	70	65
6	55	50	49	61	63	60	60	60	60	61
7	48	53	44	55	61	63	60	60	55	55
8	51	45	57	51	55	61	63	55	55	55
9				24	40	52	56	63	65	70
10				9	24	40	43	56	63	65
11					9	24	38	43	56	63
12						9	23	37	42	55
Total	583	561	510	602	657	712	742	767	779	797

PROJECT DESCRIPTION

The proceeds of the bonds will be used to: (1) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of certain charter school educational facilities for RSA, located at and adjacent to 955 Inspiration Place, Redding 96003, (2) to pay certain expenses incurred in connection with the issuance of the Bonds, and (3) to fund all or a portion of a debt service reserve fund, repair and replacement 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 in whole or in part 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
Redding School of the Arts Early College High School	RSA Facilities, LLC	955 Inspiration Place and adjacent real property, Redding 96003	New Construction	\$8,500,000
Total Estimated Project Costs				\$8,500,000

RSA will construct a 12,400 square foot educational facility for RSAHS students that will include seven classrooms, five offices, a reception area, a 650-seat education theater/performing arts center, and a multipurpose room that can be used as a lunchroom and house a serving kitchen.

The new facility will be located adjacent to the existing RSA campus. The existing campus is on approximately 15 acres and located at 955 Inspiration Place in Redding and housing a 77,091 square foot educational facility from which RSA operates grades K-8. The K-8 Facility is owned by the McConnell Foundation and leased to RSA. The McConnell Foundation is a philanthropic organization that provides funding a wide array of nonprofits, educational entities and government agencies in far Northern California.

FINANCING

Borrower: RSA Facilities, LLC., a California limited liability company the sole member of which is Redding School of the Arts, 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 Redding School of the Arts.

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 Trustee pursuant to the Loan Agreement. The Borrower will enter into a Deed of Trust for its fee simple interest in the adjacent parcel, and a Reserve Account will be established under the Indenture. RSA, as the lessee, is required to maintain certain financial covenants under its lease agreement with the Borrower. As additional security and in connection with the issuance of the bonds, RSA will provide instructions to the State Controller's Office to make an apportionment 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 (the "Intercept").

Funds received by the Trustee pursuant to the Intercept will be 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 RSA, 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)	Total
Bond Proceeds			
Par Amount:	\$11,000,000	\$1,000,000	\$12,000,000
Other Sources: Enhancement Grant	\$900,000	\$100,000	\$1,000,000
Total:	\$11,900,000	\$1,100,000	\$13,000,000
Uses:	Series 2023A (Tax-Exempt)	Series 2023B (Taxable)	Total
Project Fund Deposit			
HS Campus Project	\$10,335,000	\$585,000	\$10,920,000
Capitalized Interest	\$450,000	\$50,000	\$500,000
Cost of Issuance	\$50,000	\$350,000	\$400,000
Underwriter Discount	\$165,000	\$15,000	\$180,000
Debt Service Reserve Fund	\$900,000	\$100,000	\$1,000,000
Total	\$11,900,000	\$1,100,000	\$13,000,000

Total Costs of Issuance*

Expense	Amount
Issuer Fee	\$18,000
Application Fee	\$2,500
Annual Admin Fee	1,800
Agent-for-Sale Fee	6,000
Issuer's Counsel Fee	10,000
Bond Counsel Fee	100,000
Borrower's Counsel Fee	80,000
Underwriter's/Disclosure Counsel Fee	85,000
Trustee/Trustee Counsel Fee	10,000
Financial Printer Fee	5,000
Underwriter's Discount	165,000
Underwriter Expenses	15,000
Title Insurance Fee	25,000
Appraiser Fee	2,500
Construction Contingency Budget	29,200
Total	\$400,000

**Estimates based on principal amount of \$12,000,000.*

Credit Enhancement - There will be a not-to-exceed \$800,000 credit enhancement award for the Borrower, on behalf of RSA, for this financing that will be before the Authority Board as subsequent agenda items at the August 31, 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 the likely below-investment grade rating. 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 \$100,000;
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 \$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 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 August 24, 2023. The TEFRA hearing will take place on August 31, 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, RSA and the 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, RSA Facilities, LLC, is a California limited liability company, and was formed in 2023 to support RSA, by, among other things, holding title to property and managing, operating and leasing property. The Borrower was formed as a single purpose entity of which RSA is the sole member with 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 Borrower was formed for the purpose of owning facilities and is not expected to have any other assets or revenue available to make payments due under the Loan Agreement.

The Lessee, Redding School of the Arts, is a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Code and sole member of the Borrower.

STAFF RECOMMENDATION

Staff recommends the board adopt Resolution 23-37, authorizing the issuance of revenue bonds in an amount not to exceed \$12,000,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of educational facilities located in Shasta County, California for use by or for the benefit of Redding School of the Arts.

1. **Applicant / Borrower:** RSA Facilities, LLC
2. **Project:** New Construction
3. **Amount of Financing:** Not to exceed \$12,000,000
4. **Maturity:** 40 years (Not-to-exceed 40 years)
5. **Repayment/Security:** Intercept of Lease Payments and Deed of Trust on Real Property
6. **Preliminary Interest Rate:** 5.75%
7. **Preliminary Cost of Issuance:** The preliminary Costs of Issuance is \$400,000
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

Jean Hatch	President
Jonathan Sheldon	Vice President
Tiffany Blasingame	Secretary
Daria O'Brien	Community Member
Sharon Hoffman Spector	Community Member
David Skinner	Parent Representative

Administrators

Lane Carlson	Executive Director
Carol Wahl	Principal
Sophia Zaniroli	Vice Principal

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

	Fiscal Years Ended June 30,					
	<u>2023</u> (Unaudited)	<u>2024</u> (Projected)	<u>2025</u> (Projected)	<u>2026</u> (Projected)	<u>2027</u> (Projected)	<u>2028</u> (Projected)
Enrollment	602	657	712	742	767	779
Local Control Funding Formula	\$ 5,020,918	\$ 6,282,093	\$ 7,161,176	\$ 7,854,887	\$ 8,507,624	\$ 9,013,140
In Lieu of Property Taxes	905,337	930,073	1,051,307	1,038,848	1,038,848	1,038,848
Federal Sources	486,018	350,000	330,800	195,000	195,100	195,100
Other State Revenues	2,427,663	1,354,316	1,282,118	1,291,436	1,299,791	1,303,789
Local Sources	174,745	205,230	220,931	250,284	270,597	292,933
Total Revenue	<u>\$9,014,681</u>	<u>\$9,121,712</u>	<u>\$10,046,332</u>	<u>\$10,630,455</u>	<u>\$11,311,960</u>	<u>\$11,843,810</u>
Salaries and Benefits	5,906,183	6,317,017	6,700,808	7,107,382	7,291,463	7,376,046
Books and Supplies	508,315	470,053	487,922	394,957	494,957	539,957
Services, Other Operating Expense	1,225,344	1,835,599	1,723,536	1,719,508	2,210,022	2,256,353
Rent Expense: K-8 Campus	202,483	200,000	200,000	200,000	200,000	200,000
Debt Service: HS Campus	-	-	600,000	600,000	600,000	600,000
Capital Outlay	(50,433)	-	-	100,000	100,000	100,000
Total Expense	<u>\$7,791,892</u>	<u>\$8,822,669</u>	<u>\$ 9,712,266</u>	<u>\$10,121,847</u>	<u>\$10,896,442</u>	<u>\$11,072,356</u>
Change in Net Assets	<u>\$1,222,789</u>	<u>\$ 299,043</u>	<u>\$ 334,066</u>	<u>\$ 508,608</u>	<u>\$ 415,518</u>	<u>\$ 771,454</u>
+ Rent Expense: K-8 Campus	202,483	200,000	200,000	200,000	200,000	200,000
+ Debt Service: HS Campus	-	-	600,000	600,000	600,000	600,000
Income Available for Debt Service	<u>\$1,425,272</u>	<u>\$ 499,043</u>	<u>\$ 1,134,066</u>	<u>\$ 1,308,608</u>	<u>\$ 1,215,518</u>	<u>\$ 1,571,454</u>
Rent Expense: K-8 Campus	202,483	200,000	200,000	200,000	200,000	200,000
Estimated Debt Service: Series 2023 Bonds	-	-	544,688	544,688	649,688	647,338
Total Annual Rent/Debt Service Expense	<u>202,483</u>	<u>200,000</u>	<u>744,688</u>	<u>744,688</u>	<u>849,688</u>	<u>847,338</u>
Rent/Debt Service Coverage Ratio	7.04x	2.50x	1.52x	1.76x	1.43x	1.85x