

\$20,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (AUTHORITY)
CHARTER SCHOOL REVENUE BONDS
(HARBOR SPRINGS OBLIGATED GROUP)
SERIES 2023A \$19,000,000 (TAX-EXEMPT) AND 2023B \$1,000,000 (TAXABLE)
ITEM # RESOLUTION 23-39
STAFF SUMMARY

EXECUTIVE SUMMARY

Applicant/Borrower:	Pacific Springs Facilities LLC	Par Amount Requested:	Not-to-Exceed * \$20,000,000
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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: 6.50%
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Applicant Description: Pacific Springs Facilities LLC, a California limited liability company, is the Borrower. The Borrower was formed for the specific purpose of supporting its sole member, Harbor Springs Charter School, which is a California nonprofit corporation and organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

Type of Financing: Tax-Exempt and Taxable Revenue Bonds

Project User:	Pacific Springs Charter School	County Served:	San Diego County
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District in Which Project is Located:	Chula Vista Elementary School District & Sweetwater Union High School District	Charter Authorizer:	San Diego County Office of Education
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Financing Description: Proceeds will be used to finance and/or refinance the cost of acquisition, construction, expansion, rehabilitation, renovation, furnishing and/or equipping of certain educational facilities located in Chula Vista, CA; pay capitalized interest; fund related working capital and a debt service reserve fund, and/or a repair and replacement fund; and pay certain costs of issuance.

Project Site: 1) 2371 Fenton Street, Chula Vista, CA 91914

Financing Team:		Financing Details:	
Bond Counsel:	Stradling Yocca Carlson & Rauth, P.C.	Type of Issue:	Charter School Revenue Bonds
Underwriter:	Stifel, Nicolaus & Company, Incorporated	Tax Status:	Tax-Exempt & Taxable
Borrower's Counsel:	Young, Minney & Corr LLP	Maturity:	2063
Financial Advisor:	Key Charter Advisors, LLC	Credit Enhancement:	Yes
Underwriter's Counsel:	Kutak Rock LLP	Credit Rating:	Unrated
Issuer's Counsel:	Office of the Attorney General	Fees:	See Costs of Issuance Table
Bond/ Trustee:	U.S. Bank Trust Company, N.A.		

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: 23-39
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Staff Recommendation: Staff recommends the Authority Board approve Resolution Number 23-39 authorizing the issuance of Revenue Bonds in an amount not to exceed \$20,000,000 to finance and/or refinance the acquisition, construction, expansion, rehabilitation, renovation, furnishing, and/or equipping of

certain educational facilities located in San Diego County for use by Harbor Springs Charter Schools for Pacific Springs Charter School.

BACKGROUND AND HISTORY

Pacific Springs Charter School (PSCS) is operated by Harbor Springs Charter School (the “Lessee”, a California nonprofit public benefit corporation, and is part of the broader Springs Charter Schools network, which includes River Springs Charter School (RSCS). The Lessee operates three charter schools: PSCS, Harbor Springs Charter School (HSCS), and Vista Springs Charter School (VSCS). Whereas RSCS is focused on educating in the inland empire, PSCS, HSCS, and VSCS are authorized to operate in greater San Diego County. As with the other schools within the network, PSCS is focused on a hybrid model of both at-home and in-person education. HSCS was formed in 2013 and operated as one charter school starting in the 2013-14 school year, until PSCS and VSCS split off as separate charter schools beginning in the 2018-19 school year.

The Lessee is the sole member of Pacific Springs Facilities LLC, which will serve as the borrower for the bond issue. The Lessee will lease the financed facilities for the operation of PSCS.

The San Diego County Office of Education (SDCOE) approved a 5-year renewal for the PSCS charter in 2020.

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							
Pacific Springs Charter School	SDCOE	K-12	2018	March 2018	1	2021	6/30/2026

The demographics for PSCS include:

Demographic Identifier	% of Students
American Indian/Alaska Native	0.2%
Asian	0.6%
African American	4.5%
Hispanic	61.9%
Native Hawaiian/Pacific Islander	0.2%
White	16.5%
Two or More Races	7.8%
Socioeconomically Disadvantaged	44.2%
English Learners	18.7%
Students With Disabilities	13.8%
Foster Youth	0.0%
Homeless	2.9%

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

PACIFIC SPRINGS CHARTER SCHOOL PROJECTED ENROLLMENT (CALPADS FALL 1)							
Grade	Enrollment on 8-10-22	Enrollment on 8-10-23	2023-24	2024-25	2025-26	2026-27	2027-28
TK/K			65	69	72	74	75
1			63	69	72	77	77
2			63	67	72	77	79
3			64	67	70	77	79
4			65	68	70	75	79
5			59	69	71	75	77
6			60	63	72	76	77
7			58	64	66	77	78
8			63	62	67	71	79
9			0	0	0	0	0
10			0	0	0	0	0
11			0	0	0	0	0
12			0	0	0	0	0
Total	432	540	560	598	632	679	700

**PACIFIC SPRINGS CHARTER SCHOOL
HISTORICAL ENROLLMENT (CALPADS FALL 1)**

Grade	2018-19	2019-20	2020-21	2021-22	2022-23
TK/K	57	63	61	57	61
1	47	50	54	48	58
2	48	53	55	56	55
3	41	48	60	49	63
4	39	48	50	54	52
5	45	46	49	51	53
6	50	60	53	49	52
7	62	67	69	55	66
8	51	72	66	59	54
9	0	2	0	0	0
10	0	0	0	0	0
11	0	0	0	0	0
12	0	0	0	0	0
Total	440	509	517	478	514

While RSCS has issued four bonds and one restructuring through CSFA, because this is a different set of schools with different charters, this issuance will mark the beginning of the HSCS obligated group.

PROJECT DESCRIPTION

The proceeds of the bonds will be used to: (1) finance and/or refinance the acquisition, construction, expansion, rehabilitation, renovation, furnishing and/or equipping of certain charter school educational facilities for the Lessee, located at 2371 Fenton Street, Chula Vista, CA 91914, (2) 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, capitalized interest, related working capital, and or a repair and replacement fund 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
Pacific Springs Charter School	PSF LLC	2371 Fenton Street, Chula Vista, 91914	Refinancing	\$12,500,000
Pacific Springs Charter School	PSF LLC	2371 Fenton Street, Chula Vista, 91914	New Construction	\$2,960,000
Total Estimated Project Costs				\$15,460,000

The 2371 Fenton Street location was acquired by the Lessee in 2022 from NP Fenton LLC for \$11.7 million (appraised at \$11.6 million in 2021) using proceeds of a \$12.5m bridge loan from Charter Asset Management (CAM). The building is an existing two-story office property containing approximately 38,580 square feet of rentable area. The building was originally improved in 2000 and renovated in 2007. The site area is approximately 2.27 acres, or 98,742 square feet.

The \$12,500,000 bridge loan with CAM has an interest rate of Prime + 3.45%, currently (8.50% + 3.45% = 11.95%), and the Lessee currently makes monthly interest payments. The Lessee has additionally recently made two \$100,000 principal payments, bringing the principal balance down to \$12,300,000. There is no prepayment penalty, and the bridge loan may be paid down at any time. Currently, the financing plan involves the new LLC formed for this issuance, Pacific Springs Facilities LLC, purchasing the 2371 Fenton Street property from HSCS, Inc. for the then-current principal balance due on the bridge loan, anticipated to be the current \$12,300,000 balance. The sale proceeds will then be used to pay off the bridge loan in full at closing.

The facility improvement project is currently budgeted at \$2.96 million and involves renovating the facility to provide for 17 classrooms and ancillary space on two floors, which will allow for a projected in-person capacity of approximately 500 students, plus serving an additional population of 200 full homeschool students who will occasionally use the ancillary facilities for teacher-student meetings and instructional support. The improvement project will use prevailing wage and the general contractor is Keeton Construction, which RSCS has used successfully on multiple facility improvement projects in the past. Currently, PSCS anticipates completing construction for full occupancy in Fall 2024 for the beginning of the 2024-25 school year.

FINANCING

Borrower: Pacific Springs Facilities LLC, a California limited liability company is the borrower. The Borrower was formed for the specific purpose of supporting its sole member, Harbor Springs Charter School, which is a California nonprofit corporation and organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

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 Obligation 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 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 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:	\$18,335,000	\$570,000	\$18,905,000
Other Sources:			
Enhancement Grant	\$	\$	\$
Total:	\$18,335,000	\$570,000	\$18,905,000
Uses:	Series 2023A (Tax-Exempt)	Series 2023B (Taxable)	Total
Project Fund Deposit			
	\$15,462,300.00	\$0.00	\$15,462,300.00
Other Funds:			
Debt Service Reserve Fund`	\$1,314,460.93	\$40,864.07	\$1,355,325.00
Capitalized Interest	\$1,195,747.59	\$40,033.00	\$1,235,780.59
Cost of Issuance	\$180,429.33	\$242,958.92	\$423,388.25
Underwriter Discount	\$181,270.67	\$244,091.83	\$425,362.50
Additional Proceeds	\$791.48	\$2,052.18	\$2,843.66
Total	\$18,335,000	\$570,000	\$18,905,000

Total Costs of Issuance*

Expense	Amount
Issuer Fee	\$19,452.50
Annual Admin Fee	2,835.75
Agent-for-Sale Fee	6,000
Issuer's Counsel Fee	8,000
Bond Counsel Fee	90,000
Borrower's Counsel Fee	75,000
Financial Consultant Fee	65,000
Disclosure Counsel Fee	45,000
Underwriter's Counsel Fee	
Trustee/Trustee Counsel Fee	10,000
Financial Printer Fee	5,000
Underwriter's Discount	425,362.50
Underwriter Expenses	15,000
Title Insurance Fee	25,100
Printer & Roadshow	5,000
CDIAC	2,000
Contingency	25,000
Total	\$848,750.75

**Estimates based on principal amount of \$20,000,000.*

Credit Enhancement - There will be a not-to-exceed \$1,500,000 credit enhancement award for the Borrower, on behalf of HSCS, for this financing, which will be before the Authority Board as a subsequent agenda item at the August 31, 2023, meeting. If approved, the enhancement award will fund up to \$1,500,000 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 the bonds 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, 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, Pacific Springs Facilities LLC, is a California limited liability company, and was formed in 2023 to support the Lessee, by, among other things, holding title to property and managing, operating and leasing property. The Borrower will initially have no assets other than the financed Facility and its rights under the Lease, which will be assigned to the Trustee.

STAFF RECOMMENDATION

Staff recommends the board adopt Resolution 23-39, authorizing the issuance of revenue bonds in an amount not to exceed \$20,000,000 to finance and/or refinance the acquisition, construction, expansion, rehabilitation, renovation, furnishing and/or equipping of certain educational facilities located in San Diego County, California for use by or for the benefit of Pacific Springs Charter School.

- 1. **Applicant / Borrower:** Pacific Springs Facilities LLC
- 2. **Project:** Refinancing and New Construction
- 3. **Amount of Financing:** Not to exceed \$20,000,000
- 4. **Maturity:** 40 years (Not-to-exceed 40 years)
- 5. **Repayment/Security:** Lease Payments
- 6. **Preliminary Interest Rate:** 6.50%
- 7. **Preliminary Cost of Issuance:** The preliminary Cost of Issuance is \$848,750.75
- 8. **Not an Unconditional Commitment:** The Authority resolution shall not be construed as an 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

Jennifer Mejares Pham	Chair
Jennifer Araiza	Vice Chair
Marlene Darrow	Secretary
Justin Moldenhauer	Director
Collin Harrison	Director
BJ Heath	Director
	Vacant Seat

Administrators

Kathleen Hermsmeyer	Superintendent
Amy Podratz	Assistant Superintendent, Administrative Operations
Vivian Price	Assistant Superintendent, Education/Personalized Learning
Tanya Rogers	Assistant Superintendent, Business

APPENDIX B: ESTIMATED BUDGET PROJECTIONS AND ENROLLMENT

Pacific Springs Charter School 2023 Revenue Bonds (Fenton Street Project) Financial Projections

	Actuals 2022-23	Projected 2023-24	Projected 2024-25	Projected 2025-26	Projected 2026-27	Projected 2027-28
Enrollment						
Grades Served	TK-8	TK-8	TK-8	TK-8	TK-8	TK-8
Enrollment	514	560	598	632	679	700
Average Daily Attendance ("ADA")	513.99	548.80	586.04	619.36	665.42	686.00
Revenue						
Revenue Limit (LCFF)	\$ 5,383,671	\$ 6,436,830	\$ 7,114,192	\$ 7,781,831	\$ 8,653,163	\$ 9,233,014
Other Federal Revenue	695,117	675,246	746,303	816,341	907,747	968,575
Other State Revenue ¹	1,250,451	139,539	154,223	168,696	187,585	200,155
SB740 Facility Grant ²	-	-	-	-	-	-
Other Local Revenue	781,385	740,064	817,942	894,703	994,883	1,061,550
Total Revenue	\$ 8,110,624	\$ 7,991,679	\$ 8,832,660	\$ 9,661,572	\$ 10,743,377	\$ 11,463,294
Expenditures						
Certificated Salaries	\$ 2,247,195	\$ 2,506,200	\$ 2,703,027	\$ 2,942,412	\$ 3,256,067	\$ 3,457,473
Non-Cert Salaries	527,618	584,954	630,894	686,767	759,975	806,984
Employee Benefits	958,308	1,081,904	1,166,872	1,270,212	1,405,615	1,492,560
Books & Materials	334,211	412,504	453,710	493,892	546,540	580,346
Services & Ops (ex Rent) ³	2,320,419	2,045,260	2,249,567	2,448,793	2,709,829	2,877,448
Depreciation	134,500	54,250	9,500	9,500	9,500	9,500
Interest on Bridge Loan	994,724	487,500	-	-	-	-
Rent Payments:						
Mater Dei (old site)	474,583	488,820	-	-	-	-
Fenton Street LLC Lease	-	-	1,125,000	1,350,000	1,350,000	1,350,000
Total Expenditures	\$ 7,991,558	\$ 7,661,392	\$ 8,338,570	\$ 9,201,575	\$ 10,037,526	\$ 10,574,311
Net Income	\$ 119,066	\$ 330,287	\$ 494,091	\$ 459,996	\$ 705,851	\$ 888,983
Add Back: Depreciation	134,500	54,250	9,500	9,500	9,500	9,500
Add Back: Base Rent	-	-	1,125,000	1,350,000	1,350,000	1,350,000
Net Income Available For Base Rent	\$ 253,566	\$ 384,537	\$ 1,628,591	\$ 1,819,496	\$ 2,065,351	\$ 2,248,483
Base Rent (Fenton Street LLC Lease)			\$ 1,125,000	\$ 1,350,000	\$ 1,350,000	\$ 1,350,000
Consolidated Coverage Ratio			1.45x	1.35x	1.53x	1.67x
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Beginning Cash Balance	3,950,146	5,257,716	4,252,029	4,838,221	5,385,850	6,175,501
Plus: Net Income	119,066	330,287	494,091	459,996	705,851	888,983
Plus: Depreciation	134,500	54,250	9,500	9,500	9,500	9,500
Net Cash Flow from Operating Activities	320,020	(467,489)	82,601	78,133	74,300	71,050
Net Cash Flow from Investing Activities	(11,766,015)	11,577,265	-	-	-	-
Net Cash Flow from Financing Activities	12,500,000	(12,500,000)	-	-	-	-
Ending Cash Balance	5,257,716	4,252,029	4,838,221	5,385,850	6,175,501	7,145,035
Total Expenditures	7,991,558	7,661,392	8,338,570	9,201,575	10,037,526	10,574,311
Less: Depreciation	(134,500)	(54,250)	(9,500)	(9,500)	(9,500)	(9,500)
Operating Expenses	7,857,058	7,607,142	8,329,070	9,192,075	10,028,026	10,564,811
Days Cash On Hand	244 days	204 days	212 days	214 days	225 days	247 days

NOTES/ASSUMPTIONS:

1. Other State Revenue in FY23 includes one-time state grants (Learning Recovery & Arts/Music) not continuing in FY24 on.
2. SB740 Facility Grant revenue would require (a) conversion of Otay Ranch Academy Program to full classroom-based instruction (currently structured as nonclassroom-based hybrid program), and (b) maintaining FRLP of 55% (current is 44%), so no SB740 revenue is included in this pro forma. If eligible, SB740 revenue would be approx. \$660k/year in additional funding.
3. Services & Ops in FY23 includes \$500k in one-time costs to acquire Fenton Street facility, not repeated in FY24 on.