

\$26,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (AUTHORITY)
CHARTER SCHOOL REVENUE BONDS
(SCHOLARSHIP PREP PUBLIC SCHOOLS OBLIGATED GROUP – ISSUE #2)
SERIES 2023A \$25,000,000 (TAX-EXEMPT) AND 2023B \$1,000,000 (TAXABLE)
ITEM #7 RESOLUTION 23-45
STAFF SUMMARY

EXECUTIVE SUMMARY

Applicant/Borrower:	Scholarship Prep Facility Holdings #3, LLC	Par Amount Requested:	Not-to-Exceed * \$26,000,000
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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: Scholarship Prep Facility Holdings #3 LLC, a California limited liability company the sole member of which is Scholarship Prep, d/b/a Scholarship Prep Public Schools, 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 Scholarship Prep.

Type of Financing: Tax-Exempt and Taxable Revenue Bonds

Project User:	Scholarship Prep - South Bay	County Served:	Los Angeles
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District in Which Project is Located:	Los Angeles Unified School District	Charter Authorizer:	Los Angeles 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/or equipping of educational facilities located in Wilmington, 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: The Project is located at 24910 S. Avalon Blvd., Wilmington CA, 90744 in Los Angeles County.

Financing Team:		Financing Details:	
Bond Counsel:	Stradling Yocca Carlson & Rauth, P.C.	Type of Issue:	Charter School Revenue Bonds
Underwriter:	Stifel Nicolaus and Company, Incorporated	Tax Status:	Tax-Exempt & Taxable
Borrower's Counsel:	Kutak Rock LLP	Maturity:	Not to exceed 2063
Underwriter's Counsel:	Ballard Spahr LLP	Credit Enhancement:	Yes
Issuer's Counsel:	Office of the Attorney General	Credit Rating:	Unrated
Financial Consultant:	Key Charter Advisors	Fees:	See Costs of Issuance Table
Bond Trustee:	Wilmington Trust, N.A.		

CSFA Analyst: Robby Biegler	Date of Staff Report: September 21, 2023
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Date of CSFA Board Meeting: September 28, 2023	Resolution Number: 23-45
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Staff Recommendation: Staff recommends the Authority Board approve Resolution Number 23-45 authorizing the issuance of Revenue Bonds in an amount not to exceed \$26,000,000 to finance and/or refinance the acquisition, construction, expansion, renovation, furnishing, and equipping of certain educational facilities located in Los Angeles County for use by Scholarship Prep.

BACKGROUND AND HISTORY

Scholarship Prep, doing business as Scholarship Prep Public Schools (SPPS), currently operates three schools serving the Los Angeles South Bay, Santa Ana and Oceanside communities. All three schools are K-8. Scholarship Prep Santa Ana (SPSA) opened in 2016-17 and currently serves 654 student. Scholarship Prep Oceanside (SPO) opened in 2017-18 and currently serves 559 students. Scholarship Prep South Bay (SPSB) opened in 2019-20 and currently serves 405 students. Enrollment at the three schools currently totals 1,618 students. The Orange County Department of Education (OCDOE) approved the SPSA county-wide charter; the San Diego County Office of Education approved the SPO charter; and the Los Angeles Unified School District approved the SPSB charter.

SPPS was co-founded in 2016 by current Executive Director, Jason Watts, and former State Assembly Member and State Senator Gloria Romero. As a long-time teacher and administrator in the public and charter sectors, Mr. Watts saw the importance of establishing “scholarship” pathways to college for students starting with strong academics and enhanced by arts and athletics pathways. Ms. Romero, former Senate Majority Leader, was inspired by her time as Chair of the Senate Education Committee and her tenure as Trustee with the Los Angeles Community College District to pursue K-12 education. Specifically, Ms. Romero targeted homeless and foster youth student populations, as those students tended to be the most likely to be overlooked and/or lost in the California public education system. Currently, approximately 15% of SPPS students are homeless and foster youth.

School	Grades Served	2022-23 Enrollment	2023-24 Enrollment	1 st School Year	Charter Expiration	Charter Authorizer
<i>Obligated Group Schools</i>						
Scholarship Prep Santa Ana (“SPSA”)	TK-8	643	654	2016-17	6/30/28	OCDOE
Scholarship Prep South Bay (“SPSB”)	TK-8	407	405	2019-20	6/30/27	LAUSD
Subtotal – Obligated Group		1,050	1,059			
<i>Non-Obligated Schools⁽¹⁾</i>						
Scholarship Prep Oceanside (“SPO”)	TK-8	543	559	2017-18	6/30/25	SDCOE
Subtotal – Non-Obligated Schools		543	559			
Total Network		1,593	1,618			

(1) SPPS has received a charter from the Riverside County Office of Education for a TK-8 charter school, which it expects to open in fall 2024.

SPPS’s schools have historically outperformed neighboring competing schools in both ELA and Math CAASP assessments for the population subgroups the network serves. This strong academic performance has led to achievements such as SPSA becoming one of the first schools in the State of California to receive a 7-year charter renewal. SPPS’s demographics include:

2022-23 Demographics	Obligated Group Schools		Non-obligated School
	SP South Bay	SP Santa Ana	SP Oceanside
African American	21.4%	1.2%	5.0%
Asian	3.4%	1.3%	5.9%
Hispanic	72.5%	96.9%	64.3%
White	1.7%	0.6%	21.4%
Other	1.0%	0.0%	3.4%
Free-Reduced Lunch	90.4%	91.8%	73.7%
English Language Learner	13.5%	44.5%	13.8%
Student with Disabilities	11.3%	91.8%	12.7%
Homeless Youth	8.6%	22.2%	11.2%

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

	Prior Year	Current	Projected			
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
SPSA	643	654	718	718	718	718
SPSB	407	405	375	375	375	375
Total	1,050	1,059	1,093	1,093	1,093	1,093

SPPS issued \$18,320,000 in bonds through CSFA in 2020 to finance a facility for SPSA. That financing anticipated formation of an SPPS obligated group controlled by a Master Indenture of Trust and conforming bond documents. The SPSB financing will be the second issuance for this obligated group and will have conforming bond documents.

PROJECT DESCRIPTION

The proceeds of the bonds will be used to: (1) finance and/or refinance the acquisition, construction, expansion, renovation, furnishing, and/or equipping of certain charter school educational facilities for SPSB, located at and adjacent to 24910 S. Avalon Blvd., Wilmington, 90744, (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
Scholarship Prep South Bay	Scholarship Prep Facility Holdings #3, LLC	24910 S. Avalon Blvd., Wilmington, 90744	Acquisition	\$19,000,000
Total Estimated Project Costs				\$19,000,000

Scholarship Prep Facilities Holdings #3, LLC (SPFH3), the borrower, intends to use the proceeds of the bonds to acquire the currently leased SPSB campus from Red Hook Capital Partners.

SPPS currently leases the SPSB campus from Red Hook Capital Partners (RHCP) pursuant to a development lease. The campus is located on a 1.61 acre parcel and includes two buildings, one lunch pavilion, and a playground. The first building is a two-story 22,682 SF building constructed in 1987 and includes 11 classrooms, a gymnasium, office/admin spaces, and student/staff restrooms. The second building was constructed by RHCP in 2022 and is a two-story 12,807 SF building with 11 classrooms, office/admin space, and student staff restrooms. The campus also includes a 2,400 SF lunch pavilion equipped with a solar system, a 7,000 SF playground, and a parking lot with 51 spaces (including ADA and EV spaces). In connection with the issuance of the 2023 Bonds, SPPS intends to exercise the purchase option under the lease to acquire the campus with bond proceeds for a purchase price of \$19M.

RHCP is a real estate development firm that works exclusively with charter schools. They identify and develop sites for schools under turn-key lease arrangements. They are funded by private investors who expect repayment within five years. RHCP fronts all the development costs, including land acquisition, permitting, and construction, and own the facility at the outset. Their typical lease escalates in rent each year by 3%, and they offer a purchase option after three years, though sometimes the option is offered earlier.

FINANCING

Borrower: Scholarship Prep Facilities Holdings #3, LLC., a California limited liability company the sole member of which is SPPS, 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 SPPS.

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 SPSB campus, and a Reserve Account will be established under the Indenture. SPPS, 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, SPPS 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 SPPS, 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)	Enhancement Grant	Total
Bond Proceeds				
Par Amount:	\$20,560,000	\$585,000		\$21,145,000
Other Sources:				
Enhancement Grant	\$	\$	\$1,517,800	\$1,517,800
Total:	\$20,560,000	\$585,000	\$1,517,800	\$22,662,800
Uses:	Series 2023A (Tax-Exempt)	Series 2023B (Taxable)	Enhancement Grant	Total
Project Fund Deposit				
South Bay Acquisition	\$19,000,000	\$0		\$19,000,000
Transfer Taxes	\$1,151,400	\$0		\$1,151,400
Cost of Issuance	\$211,192	\$304,053		\$515,244
Underwriter Discount	\$195,008	\$280,754		\$475,763
Debt Service Reserve Fund	\$	\$	\$1,517,800	\$1,517,800
Total	\$20,560,000	\$585,000	\$1,517,800	\$22,662,800

Total Costs of Issuance*

Expense	Amount
Issuer Fee	\$25,573
Application Fee	\$1,500
Financial Advisor	\$75,000
Annual Admin Fee	3,172
Agent-for-Sale Fee	6,000
Issuer's Counsel Fee	10,000
Bond Counsel Fee	100,000
Borrower's Counsel Fee	100,000
Disclosure Counsel Fee	50,000
Underwriter's Counsel Fee	50,000
Trustee/Trustee Counsel Fee	12,000
Financial Printer Fee	5,000
Underwriter's Discount	475,763
Third Party Reports	10,000
Title Insurance Fee	25,000
Appraiser Fee	6,000
Contingency Budget	35,999
Total	\$991,007

**Estimates based on principal amount of \$26,000,000.*

Credit Enhancement: There will be a not-to-exceed \$2,000,000 credit enhancement award for the Borrower, on behalf of SPSB, for this financing that will be before the Authority Board as subsequent agenda items at the September 28, 2023, meeting. If approved, the enhancement awards will fund up to \$2,000,000 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 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 September 21, 2023. The TEFRA hearing will take place on September 28, 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, SPSB 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, Scholarship Prep Facilities Holdings #3, LLC., is a California limited liability company, and was formed in 2023 to support SPPS, 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 SPPS 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 supporting SPPS, including by owning facilities, and is not expected to have any other assets or revenue available to make payments due under the Loan Agreement.

The Lessee, SPPS, 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 23-45, authorizing the issuance of revenue bonds in an amount not to exceed \$26,000,000 to finance and/or refinance the acquisition, construction, expansion, renovation, furnishing, and equipping of certain educational facilities located in Los Angeles County for use by Scholarship Prep.

1. **Applicant / Borrower:** Scholarship Prep Facilities Holdings #3, LLC.,
2. **Project:** Acquisition of Facility and related costs
3. **Amount of Financing:** Not to exceed \$26,000,000
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:** 6.50%
7. **Preliminary Cost of Issuance:** The preliminary Costs of Issuance is \$991,007
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**

School Leadership

Member	Position
Jason Watts	Co-Founder, Executive Director
Andrew Crowe	Deputy Director
Taylor Ellis	Chief Academic Officer
Sarah Schoenfeld-Nakamoto	Chief Operating Officer
Kristen Crowe	Chief Community Officer

Board of Directors

Member	Role
Charles Friedrichs. Ed.D,	President
John Ing	Treasurer
Barbara George	Member
Maribel Toan	Member
Peter Watson	Member

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

Scholarship Prep - OBLIGATED GROUP (Orange County + South Bay)						
Financial Projections						
	Actual 2022-23	Projected 2023-24	Projected 2024-25	Projected 2025-26	Projected 2026-27	Projected 2027-28
Grades Served	TK-8	TK-8	TK-8	TK-8	TK-8	TK-8
Enrollment	1,050	1,119	1,094	1,094	1,094	1,094
Average Daily Attendance ("ADA")	975.36	1,041.47	1,018.49	1,018.49	1,018.49	1,018.49
Local Control Funding Formula	13,367,914	15,261,998	15,590,932	16,082,534	16,604,796	17,190,849
Federal Revenue	4,787,521	2,184,659	1,251,829	1,251,829	1,251,829	1,251,829
SB740 Facility Grant	1,222,305	1,501,595	1,425,865	1,442,432	1,459,024	1,475,984
Other State Revenue	2,330,487	5,537,953	5,195,128	4,311,514	4,135,695	4,229,592
Other Local Revenue	419,912	5,183	5,062	5,062	5,062	5,062
Total Revenue	22,128,139	24,491,388	23,468,816	23,093,372	23,456,406	24,153,317
Certificated Salaries	5,451,613	5,401,703	5,160,478	5,173,319	5,226,816	5,300,812
Non-Cert Salaries	3,000,811	3,178,581	3,094,054	3,134,741	3,186,355	3,241,566
Employee Benefits	3,130,368	3,431,620	3,390,951	3,427,256	3,479,703	3,535,339
Books & Materials	2,558,481	2,720,591	2,652,990	2,706,050	2,807,502	2,903,884
Services & Ops (ex Base Rent)	3,767,965	5,736,531	4,045,859	4,721,081	4,693,020	4,877,395
Depreciation	164,602	108,184	110,347	112,554	114,805	117,101
Other Outgo	128,708	-	-	-	-	-
Base Rent:	-	-	-	-	-	-
OC Grand 2020 Bond Base Rent *	458,000	932,250	1,110,604	1,106,250	1,106,208	1,106,083
South Bay 2023 Bond Base Rent *	-	799,614	1,377,325	1,497,325	1,498,925	1,494,825
Total Expenditures	18,660,548	22,309,072	20,942,609	21,878,577	22,113,335	22,577,005
Revenues Less Expenditures	3,467,591	2,182,316	2,526,207	1,214,795	1,343,072	1,576,312
Add Back: Depreciation	164,602	108,184	110,347	112,554	114,805	117,101
Add Back: OC 2020 Bond Base Rent *	458,000	932,250	1,110,604	1,106,250	1,106,208	1,106,083
Add Back: SB 2023 Bond Base Rent *	-	799,614	1,377,325	1,497,325	1,498,925	1,494,825
Net Income Available For Rent Payments	4,090,193	4,022,364	5,124,483	3,930,924	4,063,010	4,294,322
Total 2023 Bond - Base Rent *	458,000	1,731,864	2,487,929	2,603,575	2,605,133	2,600,908
Base Rent Coverage Ratio	8.93x	2.32x	2.06x	1.51x	1.56x	1.65x
	2022-23	2023-24	2024-25	2025-26	2026-27	2026-27
Beginning Cash Balance	5,443,624	10,896,594	11,826,610	13,676,790	14,970,988	16,138,562
Plus: Net Income	3,467,591	2,182,316	2,526,207	1,214,795	1,343,072	1,576,312
Plus: Depreciation	164,602	108,184	110,347	112,554	114,805	117,101
Net Cash Flow - Other Operating Activities	2,175,063	(1,297,986)	(786,374)	(33,151)	(90,304)	(91,278)
Net Cash Flow - Investing Activities	208,212	-	-	-	(200,000)	-
Net Cash Flow - Financing Activities	(562,498)	(62,498)	-	-	-	-
Ending Cash Balance	10,896,594	11,826,610	13,676,790	14,970,988	16,138,562	17,740,697
Total Expenditures	18,660,548	22,309,072	20,942,609	21,878,577	22,113,335	22,577,005
Less: Amortization	-	-	-	-	-	-
Less: Depreciation	(164,602)	(108,184)	(110,347)	(112,554)	(114,805)	(117,101)
Operating Expenses	18,495,946	22,200,888	20,832,262	21,766,022	21,998,529	22,459,904
Days Cash On Hand	215 days	194 days	240 days	251 days	268 days	288 days
* Actual cash rent shown - not adjusted for straight-line rent expense						