

## MEMORANDUM

## Staff Summary No. 7

**Date:** September 28, 2023

**To:** Members of the California School Finance Authority

**From:** Katrina M. Johantgen, Executive Director

**Subject:** Resolution No. 23-46 – Approving the Charter School Facilities Credit Enhancement Grant Program (CDFA #84.354A) Award in an Amount Not to Exceed \$2,000,000 to Scholarship Prep Facility Holdings #3, LLC, on behalf of Scholarship - Prep South Bay, located in Los Angeles County

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**Background:** The California School Finance Authority (Authority) received a grant award in 2021 under the U.S. Department of Education’s Expanding Quality Charter Schools Program – Credit Enhancement (CE) for Charter Schools Facilities (CFDA # 84.354A), which, for purposes of the Authority’s implementation, has been permitted early access funds to the Charter Finance Enhancement Program (Charter FinE).

This federal grant, authorized under Title IV, Part C, Section 4304 of the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the Every Student Succeeds Act (ESSA), and will provide \$10,000,000 to support financing to charter schools that have received a reservation of funds through the Charter School Facilities Program or for long-term debt through the Authority’s Conduit Bond and Note Financing Program.

*Program Regulations are currently in process. Once submitted to the Office of Administrative Law, Program regulations could be effective within a few weeks to up to three months.*

**Application:** 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 Scholarship Prep - South Bay, 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.

Scholarship Prep Facility Holdings #3 LLC (the “Borrower”), on behalf of Scholarship Prep - South Bay, is applying for an enhancement award in the amount not-to-exceed \$2,000,000. The final award amount will be finalized at the time the bonds are priced and sold. This award is pending Program regulations being in effect by closing.

According to information provided by the Borrower, by helping to finance a debt service reserve fund that would otherwise be financed with bond proceeds, the CE Grant allows the Borrower to reduce its borrowing costs. Additionally, the Grant will reduce the overall lease costs for Scholarship Prep South Bay.

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**Eligibility Requirements:** The applicant meets and has demonstrated all eligibility and evaluation requirements of the Program, including without limitation:

- Good Standing – Good standing from the Authorizer is on file with the Authority;
- Applicant (1) is located in a school district and/or county where at least 50% of students do not meet the State standard for proficiency in either math or language on the state assessment, or (2) is located in a school district and/or county with more than 50% of the student population eligible for free or reduced-price lunch (Los Angeles Unified School District and Los Angeles County, where Scholarship Prep South Bay is located, are substantially above this threshold), or (3) has more than 50% of current or projected student enrollment who are eligible for free or reduced-price lunch; and/or
- Ability to secure placement of its debt with an investor(s), secure an investment grade credit rating from a national credit rating agency in conjunction with a public sale, or other evidence, satisfactory to the authority that the transaction will be completed.

**Recommendation:** Staff recommends the Board adopt Resolution No. 23-46, awarding the Borrower, on behalf of the operator of Scholarship Prep South Bay, a Charter Finance Enhancement Program (CDFA #84.354A) Award in a not-to-exceed amount of \$2,000,000.

This recommendation is contingent on Program regulations being in effect by closing.