



Agenda Item #: II A: Recommended Action Item

Date: January 11, 2023

To: Audit & Facilities Committee (the "**Committee**") of the Magnolia Educational & Research Foundation dba Magnolia Public Schools ("**MPS**") Board of Directors (the "**Board**")

From: Alfredo Rubalcava, CEO & Superintendent

Staff Lead: Patrick Ontiveros, General Counsel & Director of Facilities  
Mustafa Sahin, Project Manager

RE: Approval of Waiver of Contingencies for the Purchase of 16600 Vanowen Street for the Benefit of and Occupancy by Magnolia Science Academy—2 ("**MSA—2**")

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## I. Action Proposed

MPS Staff recommends that the Audit & Facilities Committee approve the following actions

- (1) the waiver of the contingencies by the deadline of January 13, 2023 for the purchase of the property located at 16600 Vanowen Street in Van Nuys (the "**Property**") and the release of good faith funds from escrow in the amount of \$400,000 (inclusivewhich shall be immediately non-refundable,
- (2) the financing of the purchase of the Property pursuant to the terms and conditions set forth in that certain term sheet dated January 10, 2023 by CLI Capital,
- (3) the execution by the MPS CEO and Superintendent, or his designees, of such documents and instruments as may be necessary to undertake and complete the foregoing actions and
- (4) for the Committee to recommend and move that the Board adopt the same.

## II. Purpose

The purpose of the proposed action is to proceed with the acquisition of the Property for the benefit of MSA-2 by waiving contingencies and moving into the closing period which will last 45 days. MSA-2's co-location use agreement ("**CUA**") with the Los Angeles Unified School District ("**LAUSD**") for the occupancy of the Birmingham Community Charter High School ("**BCCHS**") campus expires after the 2023-24 school year.

## III. Background

### *MSA-2 Co-Location Use Agreement*

MSA-2 operates on the BCCHS campus under the CUA with LAUSD. By its terms the CUA is co-terminus with MSA-2's charter. Originally, MSA-2's charter was scheduled to expire in June 2022. However,



when the State of California through legislation provided an extension for all charters expiring during the COVID pandemic, MSA-2's charter was extended for two years, now expiring in June 2024. Notwithstanding, LAUSD asserted that such extension was inapplicable to the CUA and that MSA-2 was required to submit an application for Prop 39 space commencing with the 2022-23 school year, with no guarantee that MSA-2 would remain on the BCCHS campus. MPS disputed LAUSD's position. After negotiation, MPS and LAUSD agreed that MSA-2 could remain on the BCCHS property through the 2023-24 school year. Thereafter, MSA-2 will have to apply for space under Prop 39. In fact, MSA-2 submitted a Prop 39 application when the FUA's interpretation was being disputed by LAUSD. Around the time that the MPS and LAUSD came to a resolution, LAUSD prepared a response to the Prop 39 application which revealed that LAUSD intended to split the MSA-2 campus in two.

#### *16600 Vanowen Street Purchase*

At its October 6, 2022 meeting, the Committee approved and ratified the execution by MPS of the purchase and sale agreement for the acquisition of the Property and approved MPS to engage in due diligence activities. At the Board's meeting on October 13, 2022 it approved and ratified the same. Committee and Board members expressed a desire to have MPS Staff to extend the due diligence period. MPS Staff negotiated an extension to the contingency period by releasing \$40,000, non-refundable, to the Seller from escrow. This action extended the due diligence period to expire on January 13, 2023.

MPS Staff has advised MSA-5's charter authorizer, the Los Angeles County Office of Education ("**LACOE**"), of its desire to purchase and develop the Property. LACOE acknowledged that MPS fulfilled its obligation to LACOE by notifying them of the transaction.

MPS proposes to purchase the Property with a loan from CLI Capital according to the terms reflected in a term sheet dated January 10, 2023, a copy of which is attached as **Exhibit A**. CLI Capital and MPS still need to negotiate final terms but the term sheet is substantially similar to the term sheets received by MPS for the purchase of the 7111 Winnetka Ave and 18242 Sherman Way. Once the documents have been negotiated and finalized, MPS Staff will return to the MPS Board for approval of the financing and the assignment of the PSA to a limited liability company ("**LLC**") subsidiary of Magnolia Properties Management, Inc. ("**MPM**"), a 501(c)(3) support corporation for. When MPS assigns the PSA to an LLC of MPM, MPS will enter into a lease for the Property with the LLC.

## **IV. Analysis**

MPS wishes to find a private site for MSA-2 in the general proximity of its current location on the BCCHS campus. For over a year, MPS has worked with its broker to locate an appropriate property for MSA-2. Nothing promising has been found. In light of the pending expiration of the CUA, it is imperative that MPS locate a new site for MSA-2 so that it is not split up.

The Property was brought to the attention of MPS Staff by its broker. It is 4.3 acres and has been owned by the same family for some time. It was placed on the market by the family's broker and received multiple offers. After a couple rounds of back and forth with MPS and other interested buyers, MPS was chosen by the seller because MPS largely agreed to the Seller's terms documented in a letter of intent.

Since opening escrow MPS staff has engaged vendors for due diligence activities. An appraisal, ALTA and topographic survey, Phase I environmental site assessment, geotechnical study and design



options have been completed. MPS Staff commissioned an architect to do test fits on the property. The schematics are attached as **Exhibit B**. Because the Property is not currently zoned for schools, it will need a conditional use permit which will require additional studies including a traffic study. The traffic study has been commissioned. MPS’s land use consultant is preparing the appropriate documents for the application. MPS, if it closes escrow, will face the risk of entitling the Property. Schools are allowed in the zone with conditions placed upon them. The appraisal performed by CBRE values the Property in its “as is” condition, including its existing zoning, at \$13.25 M. CLI Capital proposes to lend a total of \$11.8 M. The difference between the purchase price of \$13.9 M and the loan of \$11.8 M will be paid for with MSA-2’s reserves. With the reduction MSA-2’s reserves will meet applicable requirement for minimum reserves.

In order to make the overall project affordable, MPS anticipates selling a portion of the Property, approximately 2 acres, to another developer anticipated to be a housing developer. In that way, MPS will lower its overall cost for the project.

## V. Impact

MPS Staff believes that the Property will provide an excellent campus for MSA-2. MSA-2 is fully enrolled, and is a high performing school. As a result, MPS Staff believes that since the Property is approximately one mile away from MSA-2’s current home on the BCCHS campus, it will retain its student body and will continue to attract students due to being able to stay in its current community.

## VI. Budget Implications

MPS Staff has analyzed the financial implications of the purchase including affordability. While the Project is expensive, MPS Staff believes that its strategy to develop a portion of the Property and sell the rest will yield an affordable project.

MPS Staff prepared a budget model showing that the total net Project cost (assuming a sale of a portion of the Property) will be approximately \$26.5 M and completion of the Project, including construction, will occur in February 2026.

The estimated development timeline is as follows:

| Activity                      | Start     | Finish    | Duration (calendar days) |
|-------------------------------|-----------|-----------|--------------------------|
| Purchase                      | 5-Oct-22  | 2-Feb-23  | 120                      |
| CUP Period                    | 3-Feb-23  | 31-Oct-23 | 270                      |
| Zone Change Period            | 3-Feb-23  | 1-Aug-24  | 545                      |
| Design Period                 | 1-Nov-23  | 29-Apr-24 | 180                      |
| Plan Check and Permitting     | 29-Apr-24 | 24-Jan-25 | 270                      |
| Sale of 2 acres (as entitled) | 11-Aug-24 | 10-Oct-24 | 60                       |
| Construction                  | 29-Jan-25 | 29-Jan-26 | 365                      |



|           |          |          |   |
|-----------|----------|----------|---|
| Occupancy | 3-Feb-26 | 3-Feb-26 | 0 |
|-----------|----------|----------|---|

A draft income statement for the development period is as follows:

|  | 2022-23          | 2023-24          | 2024-25          | 2025-26           | 2026-27           |
|--|------------------|------------------|------------------|-------------------|-------------------|
| <b>Revenues</b>  |                  |                  |                  |                   |                   |
| LCFF State Revenue   | 6,619,027        | 6,857,974        | 7,107,604        | 8,097,082         | 8,386,958         |
| Federal Revenues   | 621,415          | 516,898          | 535,713          | 610,292           | 632,140           |
| Other State Revenues   | 1,987,158        | 1,828,775        | 1,839,742        | 1,978,360         | 2,549,185         |
| Local Revenue  | 42,117           | 43,637           | 45,226           | 51,522            | 233,366           |
| <b>Total Revenues</b>  | <b>9,269,717</b> | <b>9,247,284</b> | <b>9,528,285</b> | <b>10,737,256</b> | <b>11,801,649</b> |
| <b>Expenditures</b>  |                  |                  |                  |                   |                   |
| Certificated Salaries  | 2,880,914        | 2,984,915        | 2,738,566        | 2,958,313         | 2,937,720         |
| Classified Salaries  | 997,534          | 943,545          | 977,890          | 1,039,026         | 1,076,223         |
| Benefits   | 1,297,825        | 1,344,677        | 1,392,185        | 1,603,912         | 1,672,664         |
| Books & Supplies   | 466,158          | 482,986          | 470,567          | 536,077           | 541,739           |
| Services & Operations  | 2,352,551        | 2,320,334        | 2,323,249        | 2,506,909         | 2,560,714         |
| Other Outflow  |                  |                  |                  | 621,401           | 1,850,282         |
| <b>Sub-Total Operating Expenses</b>  | <b>7,994,981</b> | <b>8,076,456</b> | <b>7,902,457</b> | <b>9,265,637</b>  | <b>10,639,341</b> |
| Net Revenues Available for Lease Payments  | 1,274,736        | 1,170,827        | 1,625,828        | 1,471,618         | 1,162,308         |
| Annual Lease Payments  | 225,000          | 233,123          | 350,000          | 204,167           |                   |
| Coverage of Lease Payments by Net Revs   | 5.67             | 5.02             | 4.65             | 7.21              |                   |
| Capital Outlay   | 121,166          | 125,540          | 338,443          | 648,486           | 653,802           |
| <b>Total Expenditures</b>  | <b>8,341,147</b> | <b>8,435,119</b> | <b>8,590,900</b> | <b>10,118,290</b> | <b>11,293,143</b> |
| <b>Operating Income/(Loss)</b>   | <b>928,569</b>   | <b>812,165</b>   | <b>937,385</b>   | <b>618,966</b>    | <b>508,507</b>    |
| Annual Lease payments located in row 21 have been budgeted under services and other operations |                  |                  |                  |                   |                   |



SB 740 funding will offset approximately 32% of the annual lease cost. See table below.

| Principal Balance at End of Construction Amortized over 30 Years and Amortizing Payments |                  |
|--|------------------|
| Principal <sup>1</sup>   | \$26,290,375.00  |
| Interest Rate  | 6.50%            |
| Term   | 30               |
| Payment (per month)  | (\$166,173.06)   |
| Payment (per year)   | (\$1,994,076.66) |
| <i>Less SB740 at 95% ADA</i>   | \$638,400.00     |
| Net Annual Rent  | (\$1,355,676.66) |
| Number of Students   | 564              |

Notes to table:

1. Development Cost Per Seat (Principal Loan Balance ÷ No. of Students) = \$26,290,375 ÷ 564 = \$46,614

Exhibit A \_\_\_\_\_ CLI Capital Term Sheet

Exhibit B \_\_\_\_\_ Conceptual Schematics



## Exhibit A

### CLI Capital Term Sheet



January 10, 2023

*Via e-mail*

Magnolia Educational & Research Foundation  
Board of Directors  
% John Buck, Buck Financial Advisors, LLC

RE: Property acquisition and construction loan - "MSA-2 Project"

This will constitute the commitment of CLI Capital ("CLI") to loan to Magnolia Property Management, Inc. or a wholly owned single asset entity ("Borrower"), the sum of up to Twenty Seven Million Dollars (\$27,000,000), less any title insurance, appraisal costs, mortgage registration tax, origination fees and all other closing costs and expense that may be incurred by CLI in connection with the funding and collection of the loan. This is a commitment to provide financing based on the contingencies located within this letter. This letter is not intended to be an all-encompassing document but a formal communication of approval, commitment of terms, and identification of contingencies and other requirements to facilitate closing in a reasonable time frame. The actual loan documents supersede all terms and conditions of this letter.

The acceptance of this commitment must be indicated by Borrower's signing and returning this letter no later than 5:00 pm Central time on January 31, 2023. If this commitment is not accepted within the specified time frame, CLI may extend the commitment (required to be in writing), allow the commitment to terminate, or issue a revised commitment (required to be in writing). The acceptance of this commitment will be the Borrower's authorization for CLI to withhold from the proceeds of the loan any closing costs or expenses associated with making the loan.

I. Loan Structure and Pricing

The loan will be structured as an advancing note for the purchase of the property located at 16600 Vanowen Street in Van Nuys, California and related improvements. The initial loan advance will be for closing costs associated with the loan. Subsequent advances will be for the purpose of property acquisition and construction in accordance with the construction contracts and construction budget as approved by CLI.

- 1) It is anticipated that the transaction will close in February of 2023. If an earlier closing is desired, closing may occur within 10 business days of CLI's receipt of all Contingencies and Requirements listed below.
- 2) The note will have a maturity date of February 1, 2028. On that date all unpaid principal, accrued interest, and other charges allowed under the note will be due.
- 3) The interest rate will be a floating rate based on the Wall Street Journal Prime rate plus a margin of 1.50%. The interest rate will have a 5.75% floor. Interest will accrue daily on the outstanding unpaid principal balance.

- 4) Land Closing Funding. At the closing of the land purchase, CLI will initially advance up to \$11.8M to fund the purchase of the land. This amount works out to 85% of the appraised value of the land, plus an allowance for closing fees and costs.
- 5) Repayment. Monthly interest payments will be required on the outstanding loan balance beginning April 1, 2023 and continue until the construction project begins.
  - a. Once construction draws begin, monthly payments of interest and/or principal will no longer be required until construction completion (expected March 2026).
    - i. Construction Draws. Construction draws may be funded upon the completion of the following project development milestones:
      1. Zoning and usage is changed as planned;
      2. The sale of the “excess land” has taken place resulting in a principal paydown of at least \$5 Million;
      3. The final construction plans, construction budget, and campus operating budget have been approved by CLI in writing and appraised by a qualified third party appraiser.
      4. Construction draws advanced by CLI will be limited to the lesser of 100% construction costs, or 100% of appraised value.
      5. Up to \$500,000 may be advanced to Borrower for the reimbursement of development expenses previously incurred once the construction period has commenced, subject to the appraised value limitation discussed above.
    - b. If construction draw advances have not begun by March 2025, monthly principal and interest payments will be required until construction draws begin. The payments will be based on a 20 year amortization schedule.
    - c. Once construction is complete, (expected by March 2026) any outstanding interest will be capitalized to the loan’s principal balance. Monthly payments of principal and interest based on a 30 year amortization will then be required for the remainder of the loan term.
  - 6) Borrower will pay to Lender an origination fee of 2% of the total loan commitment in conjunction with the closing of the loan. Borrower may pay this and/or all of its closing costs with an advance on the loan.
  - 7) The loan may be prepaid at any time without penalty.

## II. Contingencies and other Requirements

This commitment shall be subject to the following conditions:

- 1) Borrower shall return a signed copy of this commitment letter to CLI on or before the expiration date listed above.
- 2) The loan shall be secured by a first mortgage lien on the property purchased and an assignment of all rents, leases, contracts, etc. concerning the property. The lease between Borrower and the tenant must be reviewed and approved by CLI prior to closing. Said property shall be subject to no other liens or encumbrances unless otherwise approved by CLI in writing. Payments made to other related entities for management fees or other similar expenses may be restricted by the lender in the event of an uncured default under the loan documents.



- 3) The loan will be made pursuant to a loan agreement entered into by the Borrower and CLI consistent with the terms of this commitment and such other normal covenants of the Lender's loan agreement.
- 4) That a mortgage title insurance policy in the face amount of not less than the total amount of the loan be issued by a title insurance company acceptable to CLI, insuring CLI is the holder of a good and valid first lien mortgage upon the real estate securing the loan.
- 5) During the term of the loan Borrower agrees to periodically supply CLI with financial statements, reports, and any other pertinent financial or statistical data as reasonably requested by CLI.
- 6) The loan agreement will include a limitation on MERF/MPM borrowing additional debt without obtaining prior written approval by CLI, subject to a de-minimis aggregate amount of \$1,000,000. Please note that the \$50.8M grant/loan that has been recently awarded regarding the MSA5 campus project is approved by CLI.
- 7) Borrower will be required to furnish to CLI evidence of builder's risk coverage/hazard insurance in an amount not less than the amount of the note. The policy is to provide for customary builders risk coverages, fire, and extended coverage on the entire facility. CLI is to be listed as mortgagee and loss payee. Evidence of such coverage must be furnished prior to loan funding and approved by CLI.
- 8) Borrower will provide a full project budget and related construction contract prior to funding loan advances beyond the initial closing advance, which must be approved by CLI. No construction changes or modifications will be made to the construction budget without the expressed written consent of CLI. Construction draws will be processed using normal and customary AIA Construction Progress Draw Forms. Construction draws must be approved by the architect supervising the project. The construction draw process will be monitored by a third party construction monitoring agent as selected or approved by CLI. The costs related to this monitoring agent will be paid by Borrower. These costs are estimated at \$450 per construction draw.
- 9) Borrower agrees to pay all lender's costs associated with this loan, including legal fees for document preparation (estimated to be 8,000), flood searches (estimated at \$16) and environmental assessment (estimated at \$500). If the environmental assessment indicates any potential environmental issues, a Phase 1 must be obtained and approved by CLI prior to closing. If Borrower has already obtained a Phase 1 on the property the \$500 environmental assessment charge will be waived. Note: CLI has been provided a Phase 1 which suggested soil sample testing. Please forward the results of these soil sample tests to CLI so they may be reviewed by CLI and approved by CLI in writing.
- 10) CLI and Borrower must review and approve all legal documents prior to closing and CLI and or its legal counsel must review and approve the corporate documentation of the Borrower and other entities involved in the transaction prior to closing.
- 11) The parties represent and agree that CLI is a resident of Potter County, Texas and that Borrower has contacted CLI in Potter County, Texas and this contract has been negotiated, in whole or in part, in Potter County, Texas. The parties further represent and agree that all notices and all payments to CLI are to be made in Potter County, Texas.
- 12) Based on the foregoing representations, the parties agree that this contract is to be governed by the laws of the state of Texas, and that jurisdiction of any dispute over interpretation or enforcement of this contract is proper in a district court in the state of Texas, which location would not be unreasonably inconvenient, or unjust. The parties therefore designate that any suit brought to interpret or enforce this contract shall be brought in a district court in Potter County, Texas, or in the United States District Court for the Northern District of Texas, Amarillo Division.

We look forward to working with you in connection with this transaction.

Sincerely,



Travis David  
Senior Vice President and Chief Financial Officer  
CLI Capital

This commitment has been agreed to and accepted by the undersigned on behalf of Borrower

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*Signature*

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*Printed Name and Title / Date*

cc: Lender's Counsel



## Exhibit B

## Schematics

# SCHEME 3

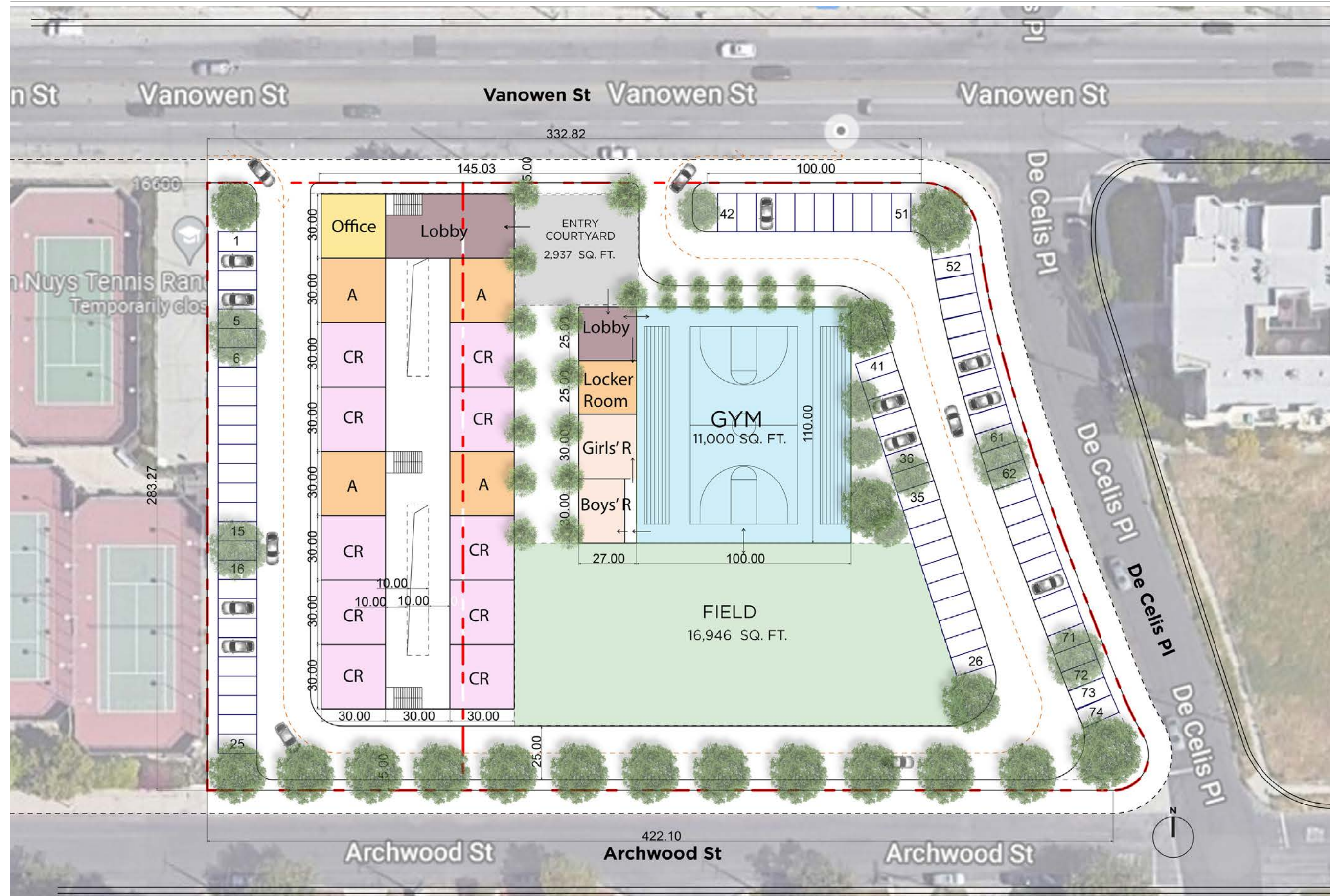
FIRST FLOOR

## INFORMATION

- TOTAL SITE AREA = 108,938.3 SF
- 16600 W VANOWEN ST.= 33,609.3 SF
- 16602 W VANOWEN ST.= 75,329 SF
- 20 CLASSROOMS
- 74 PARKING
- GYM AREA = 11,000 SF
- FIELD AREA = 16,946 SF

## LEGEND

- CLASSROOMS
- ADMIN
- OFFICE
- GYM
- RESTROOM
- FIELD
- LOBBY



# SCHEME 3

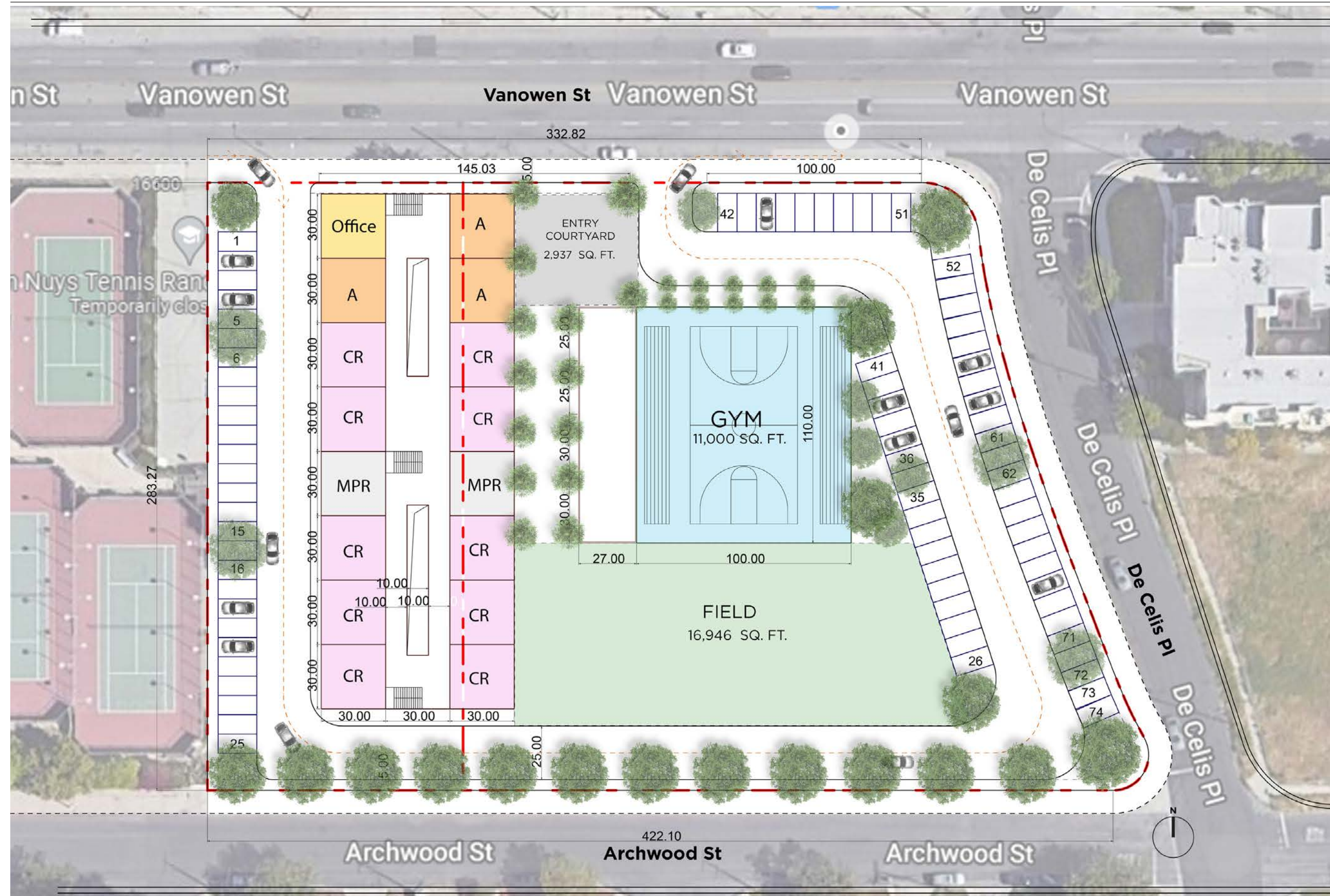
SECOND FLOOR

## INFORMATION

- TOTAL SITE AREA = 108,938.3 SF
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## LEGEND

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# SCHEME 3

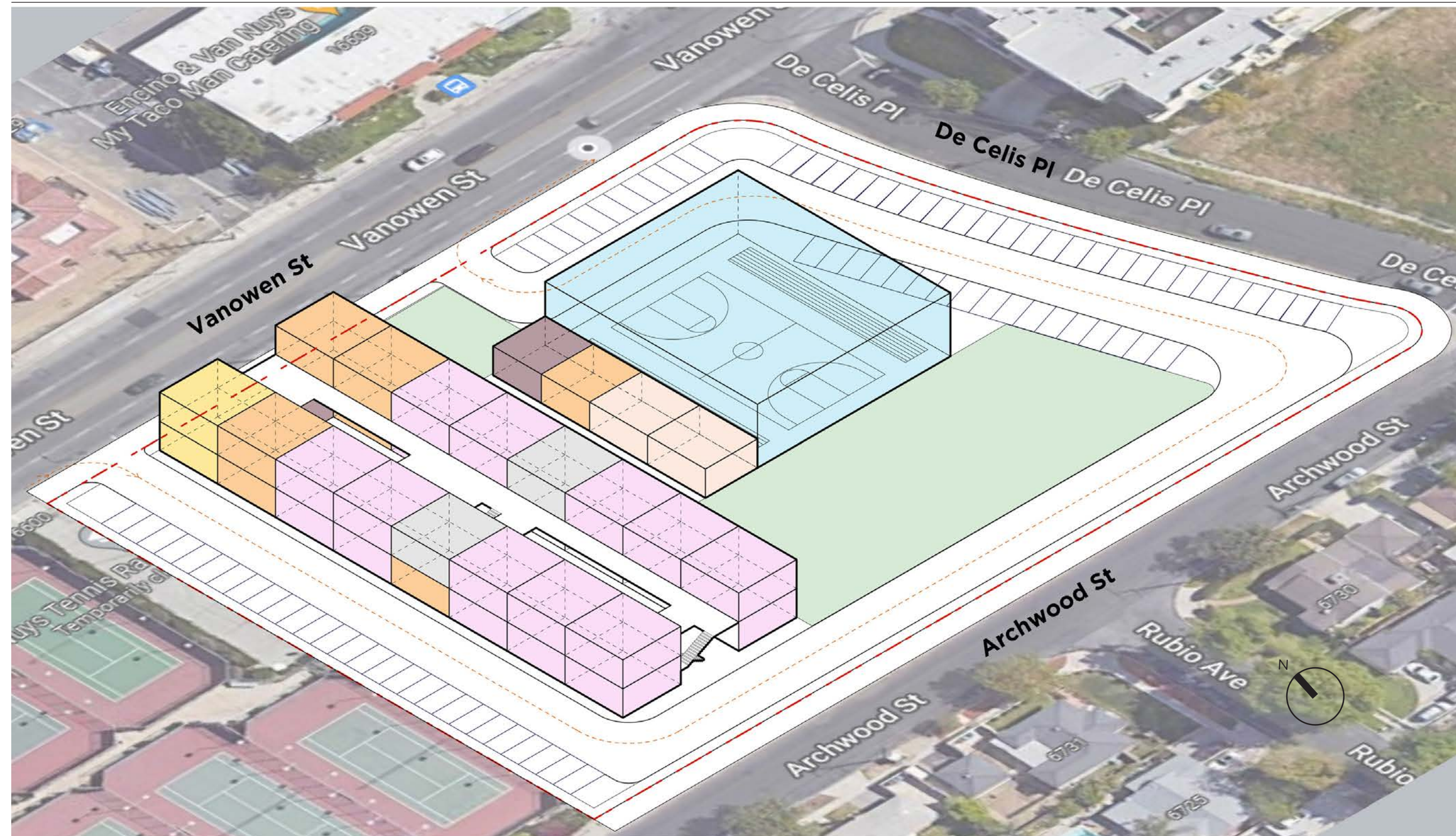
ISOMETRIC VIEW

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## LEGEND

- CLASSROOMS
- ADMIN
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- GYM
- RESTROOM
- FIELD
- LOBBY



**SCHEME 5**

**INFORMATION**

TOTAL SITE AREA = 79,400.7 SF

16654 W VANOWEN ST.

20 CLASSROOMS

68 PARKING

GYM AREA = 12,566 SF

FIELD AREA = 11,080 SF

**LEGEND**

- CLASSROOMS
- ADMIN
- OFFICE
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**SCHEME 5**

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**LEGEND**

CLASSROOMS

ADMIN

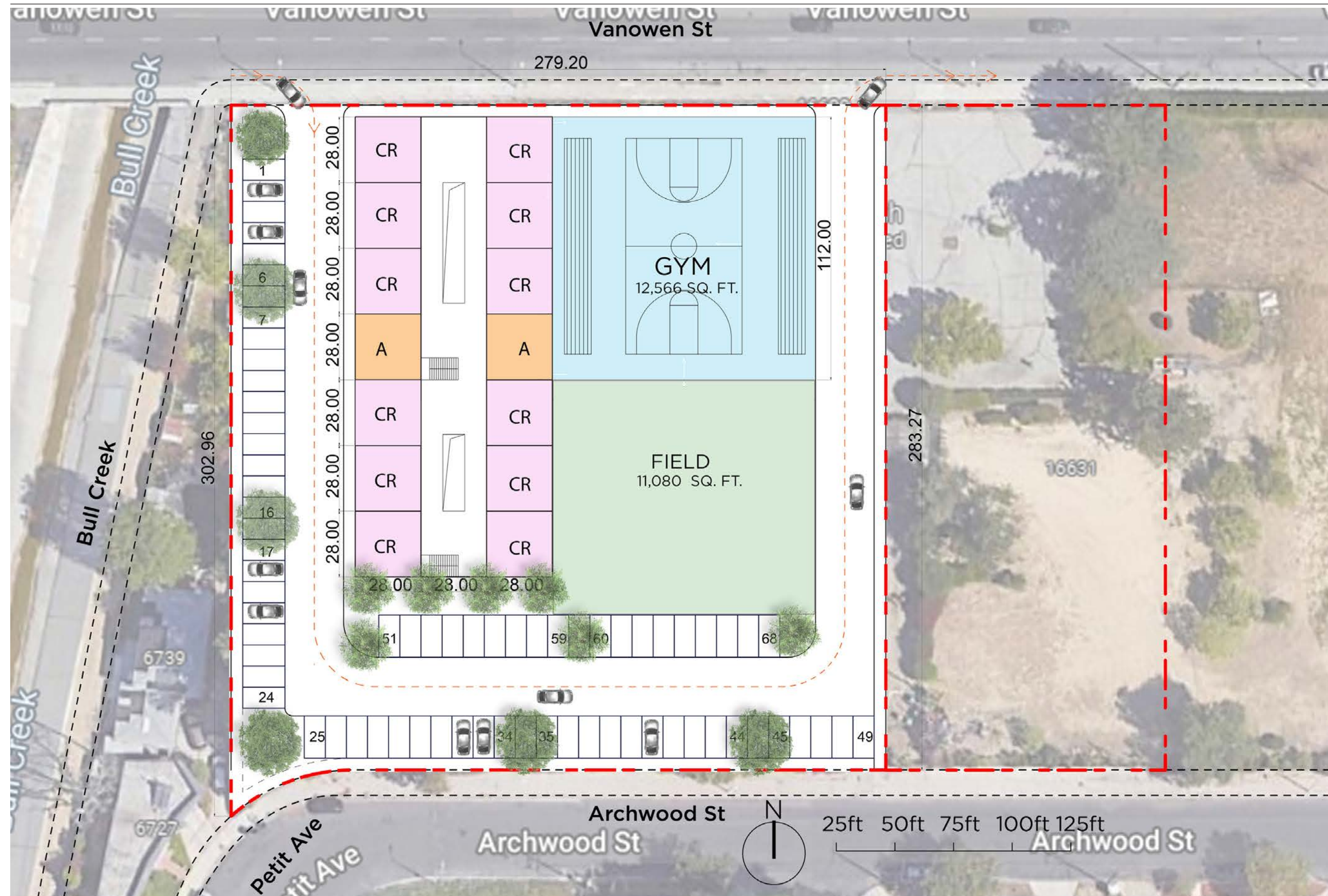
OFFICE

GYM

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FIELD

LOBBY





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