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CAPITAL MANAGEMENT, LLC

Draft Summary of Terms of Purchase
School Facility Revenue Bonds
Magnolia Educational and Research Foundation Project
Series 2017
1/25/17

This summary of basic terms among Magnolia Educational and Research Foundation (the “Lessee” or the “Foundation”), MPM Sherman Way LLC (“MPM”) and Hamlin Capital Management, LLC (“Hamlin” and, together with MPM and the Lessee, the “Parties”) memorializes the Parties’ understanding of the material terms relating to the proposed purchase of the proposed above-captioned bonds (the “Bonds”) by clients of Hamlin to be issued at the request of the Foundation and MPM (collectively, the “Obligated Group”) in order to finance and refinance certain educational facilities which are owned and operated by the Obligated Group.

ISSUER/AUTHORITY	California School Finance Authority
UNDERWRITER	DA Davidson, subject to engagement agreement discussion
TRUSTEE	UMB Bank, National Association
OBLIGATED GROUP	<p>MPM and Foundation (the obligations of the Foundation are limited to the revenues of the schools financed and the management fees related to all schools, whether or not financed. The Foundation will also provide Liquidity Support).</p> <p>MSA-Santa Ana and MSA-San Diego can prepay their respective debts at any time with no prepayment penalty. MSA Santa Ana will be released from the Obligated Group so long as (i) no Event of Default has occurred and is continuing and (ii) the bonds related to MSA Santa Ana are no longer outstanding. At the time that no Event of Default has occurred and is continuing, the financial covenants can be satisfied solely by MSA1, the bonds related to MSA Santa Ana and MSA San Diego are no longer outstanding and the Foundation evidences the Liquidity Support Requirement is available, the Foundation along with MSA San Diego may be released from Obligated Group.</p>
BONDHOLDER REPRESENTATIVE (“BHR”)	Hamlin Capital Management, LLC
PROJECT	1. With respect to MSA1, refinance the new parcel and finance the cost of demolition, construction and other capital improvements.

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	<ol style="list-style-type: none"> 2. With respect to MSA Santa Ana, finance the construction of a gym and related expenses. 3. With respect to MSA San Diego, finance the acquisition of 18 portables and cost of infrastructure improvements. 4. Fund a Debt Service Reserve Fund (to be funded at Maximum Annual Debt Service on a pro rata basis with each advance). 5. Pay Costs of Issuance of the Bonds.
EXPIRATION DATE	Basic Term sheet must be signed by February 15, 2017, and terms are valid for 180 days from the date of execution, but can be extended at option of BHR
TERMS OF BOND ISSUE	
Par Amount	Tax Exempt: Not to exceed \$19,500,000
	Taxable: TBD
Minimum Denominations	\$25,000
Yield	Tax Exempt: 6.25% Taxable: 7.00%
Maximum Maturity	Tax Exempt: 2044 Taxable: 2019
Draw Down Bonds	Bonds may be drawn down in no more than 5 installments Minimum draw is \$2,000,000 30 days advance notice to BHR and Underwriter required for a draw
Interest Payment Dates	Semi Annual
Additional Bonds	<p>The Bonds shall be issued as Additional Bonds on parity with the 2014 Bonds issued for MSA1.</p> <p>Additional Bonds may be issued on a parity with the 2014 Bonds and the Bonds for other schools subject to BHR consent and completion of due diligence satisfactory to BHR.</p> <p>Additional parity indebtedness subject to BHR consent. No senior indebtedness permitted. \$250,000 of subordinate indebtedness</p>

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	<p>permitted and \$250,000 of capital leases for equipment only.</p> <p>For the avoidance of doubt, the Foundation can pledge revenues from schools not financed by the Bonds or Additional Bonds in order to incur additional debt for such schools but cannot pledge the revenues from schools financed by the Bonds or Additional Bonds or any management fees received by the Foundation from any schools, whether or not financed.</p> <p>Bond Documents will be amended (as needed) to provide for issuance, to create the Obligated Group and to include standard Hamlin bond requirements (authorized denominations, accredited investors and qualified institutional investors, amendments to documents with less than 100% consent, etc)</p>
Optional Redemption Provisions (Tax-Exempt)	<p>July 1, 2024, to match existing Series 2014 Bond optional redemption provision</p> <p>Par amount of Bonds attributed to MSA Santa Ana and MSA San Diego projects may be prepaid at any time without prepayment penalty.</p>
Purchase in Lieu of Redemption	<p>Purchase of the Bonds in lieu of redemption permitted at any time at a price negotiated between Obligated Group and BHR</p> <p>Principal amount of Bonds purchased to be credited against the final scheduled sinking fund payment unless otherwise directed by BHR</p> <p>Purchased Bonds shall be cancelled</p>
PRE-CLOSING CONDITIONS	
Liquidity Support Agreement	<p>At the time of release of the Foundation from the Obligated Group, the Foundation will provide evidence of and will continue thereafter to maintain unrestricted cash and/or cash equivalents equal to at least one year of Maximum Annual Debt Service (the “Liquidity Support Requirement”). For the avoidance of doubt, the Foundation cannot be released from the Obligated Group unless evidence of the Liquidity Support Requirement is satisfactory to BHR</p> <p>Liquidity Support to be tested twice annually</p>
Construction Contract	<p><u>AIA</u> guaranteed maximum price (“GMP”) construction contract for the construction. Construction contract to include a satisfactory liquidated damage provision and provision for payment and performance bonds in amounts and form satisfactory to BHR.</p> <p>Liquidated Damages to equal at least daily debt service on the 2017</p>

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	Bonds
Permits/Environmental	Permits, licenses and approvals required for construction of the Project, unless waived by BHR
Environmental Assessment	Current Environmental Assessment Report (Phase 1 Environmental Report) prepared by qualified and reputable civil or environmental engineers that is satisfactory to BHR Reliance letter addressed to Underwriter, Trustee and BHR
Appraisal	N/A
Title Insurance	Title insurance policy insuring good and clear title to the land, if applicable, and improvements comprising the mortgaged property containing no survey exception by a title company selected by BHR Fee mortgage on properties owned by Obligated Group (i.e. MSA-1) and leasehold mortgage on properties leased by Obligated Group (i.e. MSA San Diego)
Construction Monitoring	Independent construction monitor selected by BHR. MERF to pay for construction monitor. Contract to have a per project fee cap. BHR has selected Hartman Consulting LLP
Budget	Detailed operating budget and a sources and uses of funds. Uses of funds to include \$1 million of equity reimbursement
Conflicts of Interests / Related Party Transactions	Details of all related party conflicts of interest and related party transactions Any related party vendor must have a contract
Kroll Background Checks	Completed background checks for key individuals determined by BHR (Employees and Board members who have check signing authority and handle money) BHR pays for all associated expenses Results of completed background checks must be acceptable to BHR
BHR Counsel	McCarter & English, LLP Estimated fee is not expected to exceed \$50,000 and will be capped at \$65,000 Costs will be covered from the cost of issuance and paid at closing

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SECURITY FOR THE BONDS	
Revenue Pledge	<p>Pledge of gross revenues of Obligated Group related to the schools financed by the Bonds (MSA-1, MSA-SA and MSA-SD) and Additional Bonds and the management fees of the Foundation related to all schools, whether or not financed by the Bonds</p> <p>Intercept of Public Funds if available under State Law</p> <p>Deposit Account Control Agreement for all bank accounts entered into at closing or such later date if State Law does not permit an intercept of Public Funds, exercisable upon breach of any covenant of Event of Default</p>
Mortgage and Security Interest	<p>Mortgage and security interest representing first lien on all land (if applicable), buildings, portables and equipment (subject to permitted encumbrances acceptable to BHR) comprising the school facilities and all real property, but excluding FF&E which may be separately financed and pledged.</p> <p>Fee mortgage on properties owned by Obligated Group (i.e. MSA-1) and leasehold mortgage on properties leased by Obligated Group (i.e. MSA San Diego)</p> <p>A land parcel exchange with the City is permissible so long as the land collateral obtained is of equal or greater value than the land parcel released, is satisfactory to the BHR and has clear title, acceptable Phase 1 and meets BHR's other due diligence requirements and subject to receipt of a no-adverse affect Bond Counsel opinion. (Pertaining to MSA-1 only)</p>
Financial Covenants	<p>Debt Service Coverage covenant of at least 1.10x, measured on a school by school basis</p> <p>Days Cash on Hand covenant of at least 45 days, measured at Obligated Group level</p> <p>Foundation cannot leave the Obligated Group if doing so results in the Obligated Group no longer meeting the financial covenants</p>
Assignment of Leases and Rents	<p>Obligated Group will enter into a collateral assignment of all leases and rents related to the mortgaged properties</p>
DSRF	<p>Fully funded DSRF funded to MADS</p> <p>Any draw on DSRF to require consent of BHR (no "auto-draw")</p> <p>Replenishment of any deficiencies for valuation in 6 months and for</p>

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	withdrawals in 12 months
Equity Pledge	Magnolia Properties Management, Inc. shall pledge its membership interest in MPM
Repair and Replacement	Funded to \$250,000 over 5 years through cash flow. Survey of facilities needs to be conducted every 3 years and Repair and Replacement Fund to be increased in accordance therewith and in consultation with the BHR and Obligated Group
MISCELLANEOUS	
Limited Public Offering	Not a private placement
Rating Covenant	Obligated Group will seek, at its expense, investment grade credit rating upon written request of BHR if BHR's approved analysis shows potential of a BBB- rating
Specific Remedies upon Event of Default	BHR has right to employ consultant and Obligated Group is obligated to follow recommendations BHR has the right to enter the facilities and market them for sale. Foundation shall have the right to substitute another school in order for payments to continue subject to BHR approval and any amendments to the Bond documents requested by BHR (i.e. intercept, etc.)
Agreement to Indemnify and Hold Harmless BHR	Obligated Group agrees to indemnify and hold harmless BHR for exercising its fiduciary responsibilities including, but not limited, to acceleration and foreclosure

This summary of terms is not a commitment to lend or an offer to purchase the Bonds. The terms and conditions set forth herein are subject to modification or restructuring based upon Hamlin's due diligence and legal reviews. These are basic terms for discussion of the business deal – there will be other terms, covenants, etc.

IN WITNESS WHEREOF, and acknowledging acceptance and agreement of the foregoing, the Parties affix their signatures hereto on this ___ day of _____, 2017

HAMLIN
CAPITAL MANAGEMENT, LLC

HAMLIN CAPITAL MANAGEMENT, LLC

By:  _____

**MAGNOLIA EDUCATIONAL AND
RESEARCH FOUNDATION**

By: *Caprice Young* _____

MPM SHERMAN WAY LLC

By: **MAGNOLIA PROPERTIES
MANAGEMENT, INC.**, its sole member

By: *Caprice Young* _____

Acknowledged as to the Pledge of Membership Interest
this 25 day of January, 2017

Magnolia Properties Management, Inc.

By: *Caprice Young* _____

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**CALIFORNIA SCHOOL FINANCE AUTHORITY
 CHARTER SCHOOL REVENUE BONDS, SERIES 2017 A & 2017 B (TAXABLE)
 (MAGNOLIA PUBLIC SCHOOLS)**

FINANCING SCHEDULE

Date	Activities	Responsible Parties
Done	Negotiate terms with Hamlin	All
Done	Receive draft term sheet	All
Done	Conference call to discuss structure	All
Done	Finalize term sheet	All
Done	Execute term sheet	All
Done	Review Financial Projections	Magnolia, UFI, DA Davidson
Done	Distribute draft Bond Documents	Orrick
Wed. 3/7	CSFA Application Deadline for 4/12 meeting	Magnolia, UFI
Wed. 3/7	Distribute 1st Draft of LOM	Orrick
Thu. 3/8	Magnolia Board briefing of financing terms	Magnolia
Tue. 3/21	Distribute 2nd Draft of documents & LOM	Orrick
April	Finalize Budget	Magnolia
April	Receive GMP Construction Contracts	Magnolia
Wed. 4/5	Distribute 3rd Draft of documents & LOM	Orrick
Thu. 4/6	Magnolia Board approval	Magnolia
Tue. 4/11	Finalize bond documents & LOM	Orrick
Wed. 4/12	CSFA approval and TEFRA hearing	CSFA, Magnolia
Thu. 4/13	Set Interest rate/Finalize Cash Flows	DA Davidson
Thu. 4/13	Sign bond purchase agreement	CSFA, Magnolia, DA Davidson
Fri. 4/14	Print final LOM	Orrick
Tue. 4/25	Pre-Closing	All
Wed. 4/26	Closing	All