

April 4, 2020



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***Intro to Choice Advisors  
And  
Plan of Finance***

# WHY WE ARE DIFFERENT

## Independent Advisor

- Our team is independent from any lender or financier. We do not sell or underwrite bonds, loans, or swaps, and we do not earn interest from your loans or bonds.
- Choice Advisors has ***no incentive to steer you toward one solution*** over another. Our sole purpose is to help you make sound financial decisions, independent of the incentives of your lender, investment banker, or landlord.

## Trusted Advice

- Our experience is our strength, *and* it is unique. Prior to working as advisors, we were investment bankers, lenders, and investors who ***successfully financed or invested in more than \$2.5 billion*** on behalf of charter schools. Our past experience includes:
  - Investment banking (sell-side): Over \$1.5 billion for charter schools in 13 states (#1 underwriter in US in 2016, 2015, and 2013)
  - Bond investing and commercial banking (buy-side): Over \$1 billion for charter schools in 16 states
- We know how financing products work from a banker's perspective, and we know what lenders and investors want. This experience means your school will receive advice you can trust to get your project done on time, on budget, and at a fair price.

## Comprehensive Solutions

- We can help you ***maximize the value received*** regardless of which financial product.
- Our team has experience and knowledge in the following solutions: tax-exempt bonds, taxable bonds, bank loans, USDA loans, moral obligation bonds, new market tax credits, private placements, swaps and derivatives, and investment of financing proceeds.

## What is an Advisor?

A Municipal Advisor is defined by the SEC and MSRB (Rule G-42) as someone who gives advice about the issuance of bonds and municipal financial products.

The Municipal Advisor rule was designed as a "consumer protection" rule, to heighten protection for borrowers like charter schools by requiring advisors to act in a fiduciary capacity. Unlike an underwriter or lender, an advisor must disclose and manage all potential conflicts of interest and act without regard to the financial interest of others. Simply put: a municipal advisor has to put your interest first!

# MANAGING LENDER CONFLICTS TO IMPROVE FINANCINGS RESULTS

- Lenders generally have an inherent conflict of interest with borrowers
  - Investment bankers' licensure is focused on recommendations to buy (or sell) a security (e.g. a bond); not on recommendations to borrowers (e.g. schools)
    - Investment banks make revenue selling and trading bonds with investors who want higher interest rates
  - Commercial banks are responsible for generating the highest possible returns on investment by charging the highest rates the market will bear
- Choice Advisors reduces the conflict of interest by staying independent of funding sources and uses knowledge of the market to improve pricing and transparency

## ***FIDUCIARY RESPONSIBILITIES IN A FINANCING***



Investors,  
shareholders,  
etc.

# PROPOSED SERVICES

Choice Advisors will provide the following services to Contra Costa School of Performing Arts (the “School”) to facilitate the closing of the financing while looking out for the School’s interest

1. *Structuring.* Provide recommendations regarding Financing under consideration, including such elements as timing, structure, amortization, security provisions, redemption provisions, purchase options, and such other provisions as may be appropriate.
2. *Selection of Financing Team Members.* As applicable and depending on the method of financing, coordinate a request for proposal to aid in the selection for Placement Agent and/or Underwriter as the case may be. As well as assist in securing a trustee, bond counsel, issuer, and other professionals required for the Financing.
3. *Due Diligence Facilitation.* Work with the School’s leadership and legal counsel to analyze and compile due diligence for the offering memorandum required by the investor.
4. *Financing Documents Review.* Participate in and direct, as appropriate, the preparation of the Financing documents and/or assist bond counsel, underwriter’s counsel, lender’s counsel, and/or landlord’s counsel with said documents.
5. *Third-Party Calculations.* Coordinate calculation or verification by an independent third-party of any calculations incident to the Financing, as required including: (a) escrows funded by cash, securities or both; and (b) additional indebtedness tests.
6. *Closing Process.* Issue closing memo for the Financing, as needed to reflect features of the Financing.
7. *Continuing Disclosure.* As require by Rule 15c2-12 of the SEC, Choice will help with ongoing disclosure obligations including review of quarterly and annual financial information.

# PLAN OF FINANCE

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# SITUATION OVERVIEW

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- Rosemawr has extended a term sheet for the School to finance the early purchase option for annual savings with the following proposed terms and conditions

## *Financing Features*

- Acquisition price of \$13,650,000
- 5.5% tax-exempt coupon with a price of \$94 per \$100 bond
- 35-year amortization period (final maturity of 6/1/2055)
- Capitalized interest in the first two years after acquisition
- All cost of issuance will be paid from the financing proceeds
- Intercept of funds through the California School Finance Authority
- No debt service reserve fund

## *Financial Covenants*

- Debt service coverage covenant of 1.2x on a rolling 12-month basis, tested quarterly
- Days cash on hand starting at 15 days in 2021 and increasing by 10 days per year until stabilizing at 45 days; tested semi-annually
- Additional indebtedness permitted with multi-criteria test
- Capital reserve requirement of \$200,000 by the fifth anniversary
- Enrollment covenant TBD
- Academic covenant TBD

# FINANCING SUMMARY & PROPOSED BOND PAYMENTS COMPARED TO LEASE PAYMENTS

## Sources

	35-year Bond
Bond Proceeds	\$ 14,588,800
CCSOPA Cash	-
<b>Net Financing Sources</b>	<b>\$ 14,588,800</b>

## Uses

Acquisition	\$ 13,650,000
Capitalized Interest	450,000
Costs of Issuance, CSFA, & Contingency	488,800
<b>Financing Uses</b>	<b>\$ 14,588,800</b>

## Key Financing Statistics

Yield per IRS (Arbitrage Yield)	5.907%
Maximum Annual Debt Service	\$ 1,032,250

	Contractual Obligation	Rosemawr Offer	Reduction in Price
Purchase Price	\$ 16,185,714.00	\$ 13,650,000.00	\$ 2,535,714.00

Date	Original Lease (Before Default)	Rosemawr Proposed	Savings
6/15/2021	\$ 1,170,833.33	\$ 672,248.39	\$ 498,584.94
6/15/2022	1,210,000.00	601,627.01	608,372.99
6/15/2023	1,240,250.00	1,037,703.00	202,547.00
6/15/2024	1,277,457.50	1,038,025.50	239,432.00
6/15/2025	1,315,781.23	1,037,795.00	277,986.23
6/15/2026	1,355,254.66	1,037,011.50	318,243.16
6/15/2027	1,395,912.30	1,040,675.00	355,237.30
6/15/2028	1,437,789.67	1,038,509.00	399,280.67
6/15/2029	1,480,923.36	1,040,790.00	440,133.36
6/15/2030	1,525,351.06	1,037,241.50	488,109.56
6/15/2031	1,571,111.59	1,038,140.00	532,971.59
6/15/2032	1,618,244.94	1,038,209.00	580,035.94
6/15/2033	1,666,792.29	1,037,448.50	629,343.79
6/15/2034	1,716,796.06	1,035,858.50	680,937.56
6/15/2035	1,768,299.94	1,038,439.00	729,860.94
6/15/2036	1,821,348.94	1,039,913.50	781,435.44
6/15/2037	1,875,989.41	1,035,282.00	840,707.41
6/15/2038	1,932,269.09	1,039,821.00	892,448.09
6/15/2039	1,990,237.16	1,037,977.50	952,259.66
6/15/2040	2,049,944.28	1,035,028.00	1,014,916.28
6/15/2041	2,111,442.60	1,035,972.50	1,075,470.10
6/15/2042	2,174,785.88	1,035,534.50	1,139,251.38
6/15/2043	2,240,029.46	1,038,714.00	1,201,315.46
6/15/2044	2,307,230.34	1,035,234.50	1,271,995.84
6/15/2045	2,376,447.25	1,035,372.50	1,341,074.75
6/15/2046	2,447,740.67	1,038,851.50	1,408,889.17
6/15/2047	2,521,172.89	1,035,395.00	1,485,777.89
6/15/2048	2,596,808.08	1,035,279.50	1,561,528.58
6/15/2049	2,674,712.32	1,038,228.50	1,636,483.82
6/15/2050	2,754,953.69	1,033,965.50	1,720,988.19
6/15/2051	2,837,602.30	1,032,767.00	1,804,835.30
6/15/2052	2,922,730.37	1,034,356.50	1,888,373.87
6/15/2053	3,010,412.28	1,033,457.50	1,976,954.78
6/15/2054	3,100,724.65	1,035,070.00	2,065,654.65
6/15/2055	3,193,746.39	1,033,917.50	2,159,828.89

Note: Assumes rents increase at 3% per year after 2038

## NEXT STEPS

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- Prepare 5-year forecasted financials to inform counter-offer to Rosemawr
- Discuss counter-offer to include:
  - reduced purchase price,
  - 5-years of interest only,
  - additional capitalized interest as needed,
  - debt service coverage of 1.1x, and
  - additional debt based upon a percentage of prior year's revenues.
- Engage financing team
- Prepare California School Finance Authority application
- Compile due diligence items
- Document financing
- Present to CSFA for loan approval
- Fund acquisition and close loan



# BOND FINANCING 101

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# FINANCING TIMELINE

	Week 1 4/6	Week 2 4/13	Week 3 4/20	Week 4 4/27	Week 5 5/4	Week 6 5/11	Week 7 5/18	Week 8 5/25	Week 9 6/1	Week 10 6/8
Due Diligence	█	█	█	█	█	█	█	█		
Engage Financing Team			█							
Issuing Authority (CSFA or CMFA)		█	█	█	█	█	█	█		
Real Estate due Diligence Update <i>(as necessary)</i>				█	█					
Loan Documentation				█	█	█	█	█	█	█
Pre-Closing/Document Execution									█	
Funding										█

- Due diligence and issuing authority process set timeline parameters
- Typical schedule is 50 to 75 days depending on complexity
- Coordinating all efforts is key to a successful outcome
- Experienced teams are critical to ensuring deadlines are met

## PARTIES INVOLVED IN FINANCING

**Bond counsel** – represents bond holders; opines on validity of tax-exemption for bonds; prepares bond documents

**Borrower's counsel** – represents borrower; opines that borrower has provided complete disclosure; prepares or assists in the preparation of Appendix A in offering memorandum

**Financial advisor (Choice Advisors)** – represents the borrower; creates plan of finance; manages the financing team; ensures that financing terms and rates are good; assists with post-financing compliance

**Issuer (California School Finance Authority or alternative)** – quasi-governmental entity; provides tax-exemption to borrower

**Rating agency (as necessary)** – nationally recognized, third-party credit analyst company that provides credit assessment to investors

**Trustee** –single representative of multiple bond holders; ensures financing covenants are followed

**Placement Agent/Underwriter** – investment bank identifying the investors providing the money for the project or refinancing

**Placement Agent/Underwriter's counsel** – represents the placement agent/underwriter; prepares offering memorandum (a/k/a “official statement” or “disclosure document”); conducts due diligence

# INFORMATION REQUIREMENTS

Ensuring that information is distributed as soon as available reduces due diligence timeline

## Construction/ Acquisition

- *What is the project cost and how many students does it accommodate?*
- Construction GMP and land acquisition consideration
- Detailed plans showing classroom layout, student capacity, etc.

## Demand

- *How many students do you have now and how many can you expect after?*
- Enrollment trends by grade level: past, present, future
- Wait list by grade and policy for purging it

## Educational

- *What is your academic model and how is it working?*
- CAASSP information with detail
- Accreditations and awards (e.g. WASC)

## Financial

- *What is the school's income and cash position?*
- Audited and quarterly financials
- Forecasted financial statements

## Organizational

- *Who is managing the school and who is overseeing that?*
- Board composition and goals
- Authorizer documents and relationship

# OVERVIEW OF BOND ISSUANCE PROCESS

## Phase I: Organization

## Phase II: Documentation and Due Diligence

## Phase III: Closing

- Interact with the Issuer: determine issuer, understand / initiate process, TEFRA hearing, resolution and approval.
- Identify and engage: all financing participants
- Organizational kick-off meeting/conference call: review key finance details with legal team, develop financing calendar, bond attorneys identify and discuss tax issues that could affect the transaction

# OVERVIEW OF BOND ISSUANCE PROCESS

Phase I:  
Organization

Phase II:  
Documentation  
and Due  
Diligence

Phase III:  
Closing

- Finalize due diligence process
- Draft key legal documents to be prepared include:
  - Bond Documents (Indenture, loan agreement, promissory note, etc.) –define the mechanics of financing such as when the bonds are to be repaid, what bond proceeds may be invested in, prepayment provisions, additional debt provisions, and the covenants the borrower must satisfy
  - Official Statement – the official disclosure document that is used by the underwriter to market the bonds to investors. Information regarding the borrower, the project, the bond structure and legal structure is included. Summaries of the bond documents and a feasibility study (if required) are included.
    - Appendix A – Description of the borrower’s operating history, strategic plan, management, and governance

# OVERVIEW OF BOND ISSUANCE PROCESS

Phase I:  
Organization

Phase II:  
Documentation  
and Due  
Diligence

Phase III:  
Closing

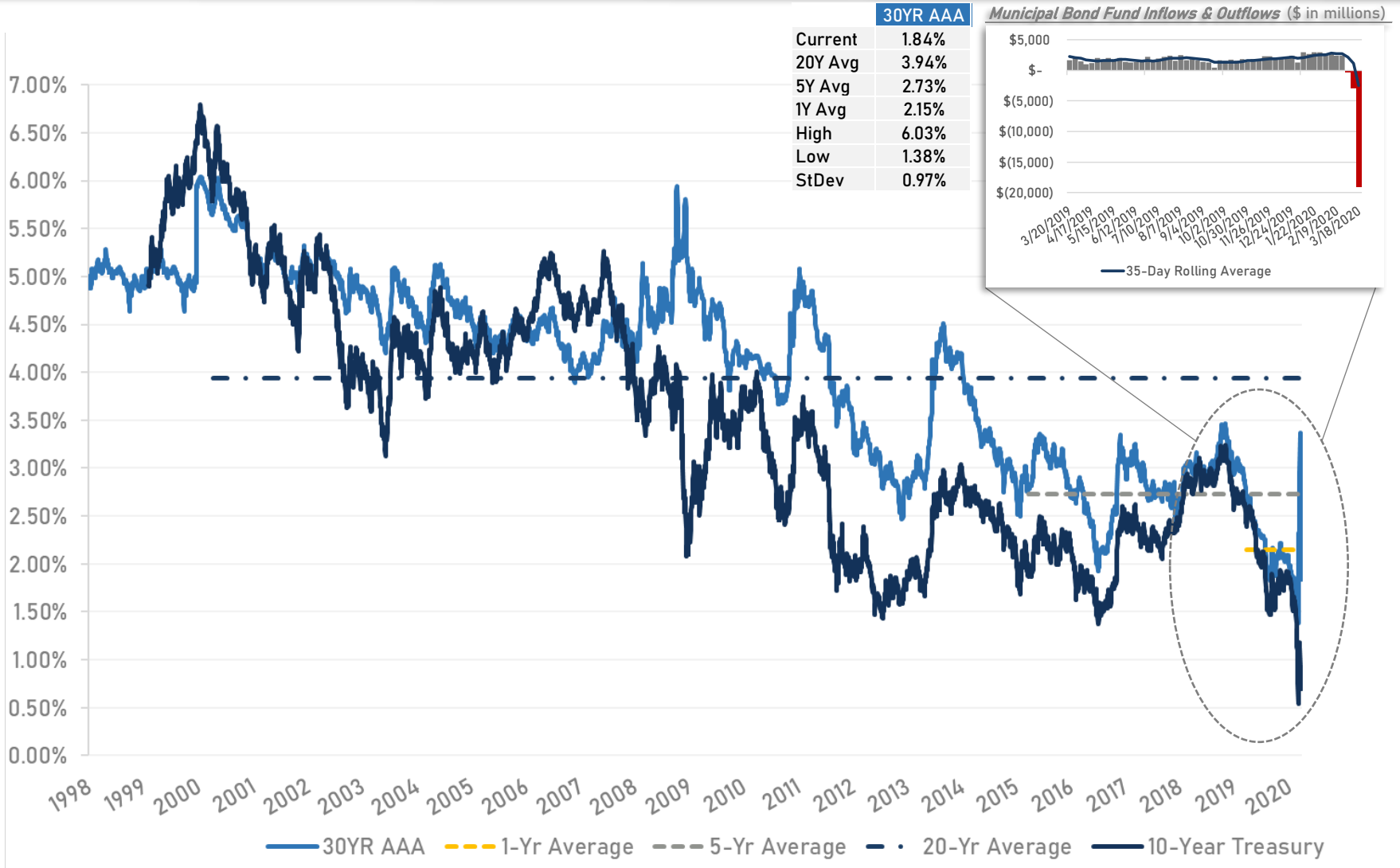
- Closing Memorandum: Choice Advisors or the underwriter prepares a closing memorandum documenting the flow of funds to occur at closing
- Final Documents: Attorneys will prepare the final documents including the final official statement
- Physical Closing: Coordinate locations, which parties must attend and sign legal documents
- Bond Closing: After all documents are signed and all parties believe that the bond issue is in order and in compliance with the tax laws and statutes, bonds are released, funds are wired by the underwriter to the trustee and the bond issue is officially closed

# CHARTER SCHOOL MARKET UPDATE

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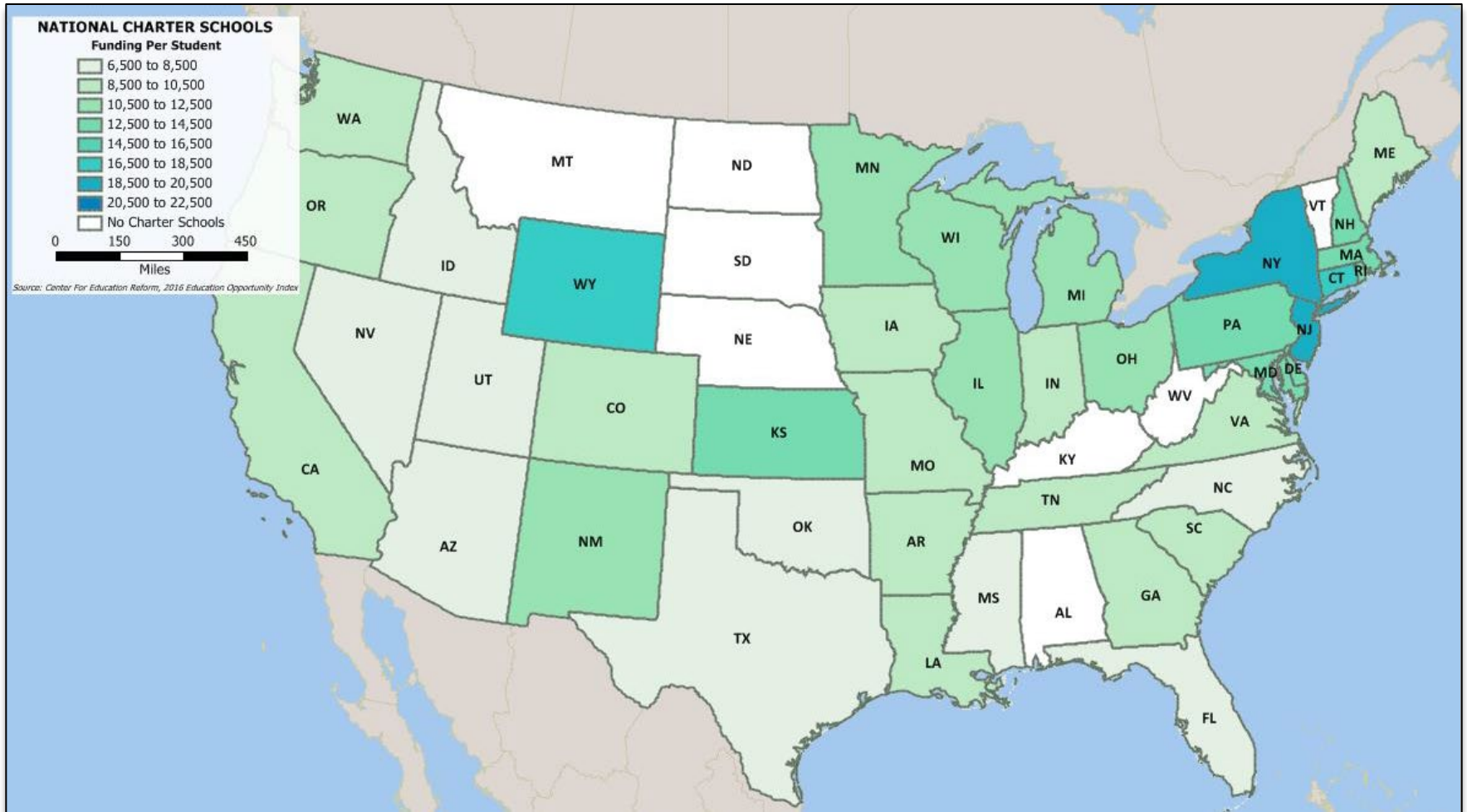


# LONG-TERM INTEREST RATES HAVE SHARPLY INCREASED WITH RECORD OUTFLOWS



Sources: Bloomberg, Municipal Market Data and Investor Company Institute, Federal Reserve Bank of St. Louis

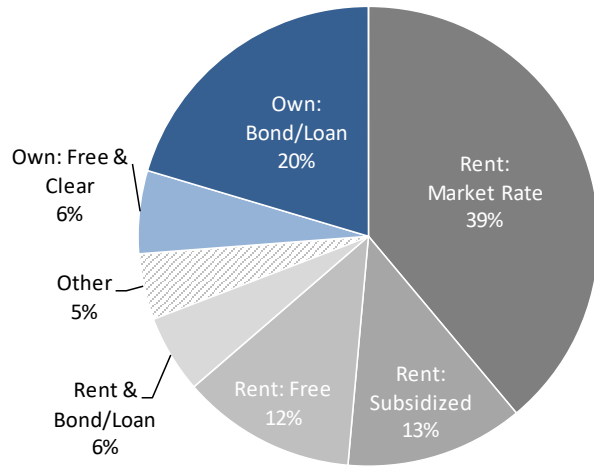
# CHARTER SCHOOLS FUNDING ACROSS THE NATION



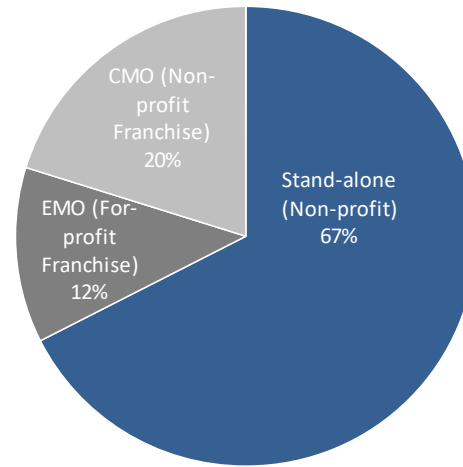
Source: Center for Education Reform

# OPERATING STATISTICS

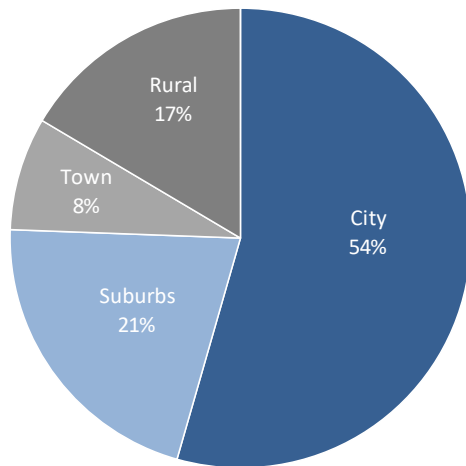
*Facility Ownership*



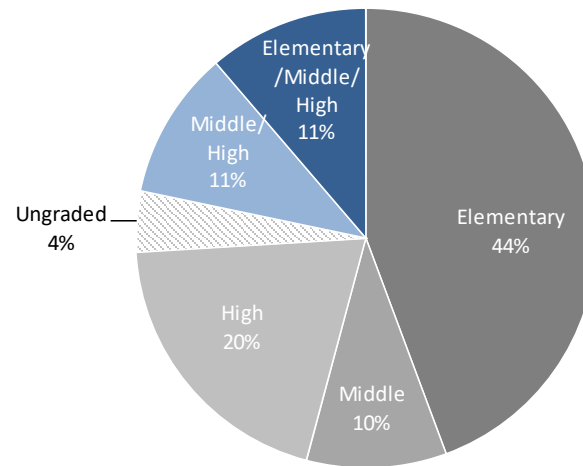
*Management Structure*



*Locale*



*Grades Served*

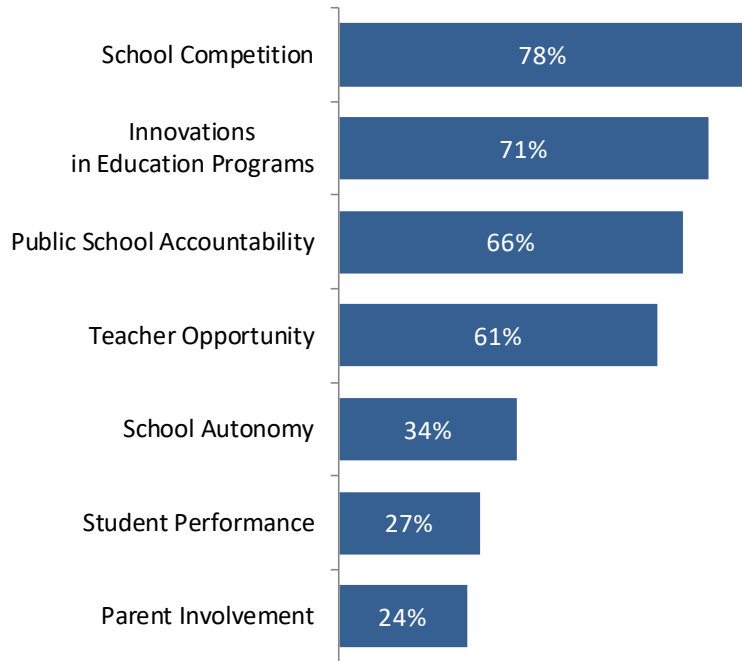


Source: NAPCS Dashboard.

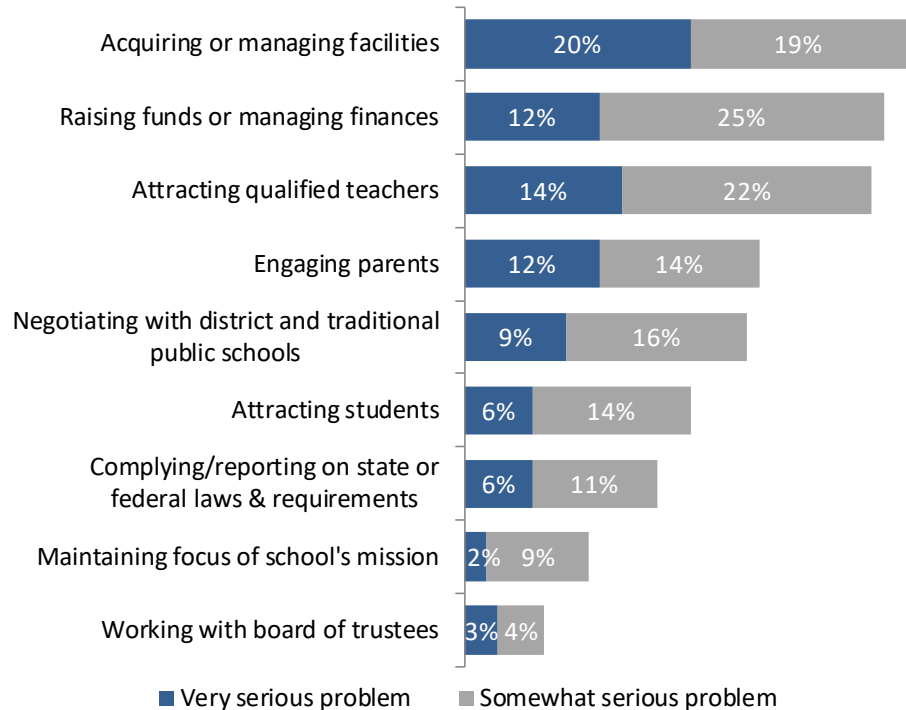
# ISSUES FACING CHARTER SCHOOLS AND THE POLITICS

- State laws are focused on competition and innovation
- School leaders continue to focus attention on facilities and financing

*Frequency of State Goals Listed in Charter Schools Laws<sup>1</sup>*



*Concerns of Charter School Leaders<sup>2</sup>*



Sources: 1) P. Wohlstetter, J. Smith, C. Farrell, Choices & Challenges: Charter School Performance in Perspective, Harvard Education Press, 2013.

2) Christine Campbell & Betheny Gross, "How Charter School Leaders Can Best Survive on the High Wire", Center on Reinventing Public Education, Sept. 2008