

\$5,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (AUTHORITY)
NONPROFIT FINANCE FUND TAXABLE NOTE
(GIRLS ATHLETIC LEADERSHIP SCHOOL LOS ANGELES PROJECT)
ITEM #8 RESOLUTION 24-23
STAFF SUMMARY

EXECUTIVE SUMMARY			
Applicant/Borrower:	Valerio, LLC	Par Amount Requested:	Not-to-Exceed * \$5,000,000
Financing Term: 10-year term with 25-year principal amortization		Projected Interest Rate: 7.35%	
Applicant Description: Valerio, LLC is a California limited liability company the sole member of which is Girls Athletic Leadership Schools Los Angeles, 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 Girls Athletic Leadership Schools Los Angeles.			
Type of Financing: Taxable Note			
Project User:	Girls Athletic Leadership School Los Angeles	County Served:	Los Angeles
District in Which Project is Located:	Los Angeles Unified School District	Charter Authorizer:	Los Angeles Unified School District
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 Van Nuys, CA, fund a debt service reserve fund, and pay certain costs of issuance.			
Project Site: 14200 Runnymede Ave., Van Nuys, 91405			
Financing Team:		Financing Details:	
Lender:	Nonprofit Finance Fund	Type of Issue:	Promissory Note
Lender's Counsel:	Orrick, Herrington & Sutcliffe LLP	Tax Status:	Taxable
Borrower's Counsel:	Kutak Rock LLP	Maturity:	Not to exceed 2031
Issuer's Counsel:	Office of the Attorney General	Credit Enhancement:	No
Financial Advisor:	Campanile Group	Credit Rating:	Unrated
		Fees:	See Costs of Issuance Table
CSFA Analyst: Robby Biegler		Date of Staff Report: May 23, 2024	
Date of CSFA Board Meeting: May 30, 2024		Resolution Number: 24-23	
Staff Recommendation: Staff recommends the Authority Board approve Resolution Number 24-23 authorizing a Loan to the Authority in an amount not to exceed \$5,000,000, the issuance by the Authority of a Promissory Note evidencing the obligations of the Authority in connection with such Loan, and a Loan from the Authority to Valerio, LLC to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, and/or equipping of certain educational facilities located in Los Angeles County for use by Girls Athletic Leadership School Los Angeles.			

BACKGROUND AND HISTORY

Girls Athletic Leadership School Los Angeles (GALS) is an all-girls charter middle school (6-8) located in the San Fernando Valley. GALS opened in 2016 and serves 154 students. According to information provided by the applicant, while operating a college-prep curriculum, GALS additionally focuses on physical activity and athletics with a holistic approach that acknowledges the inherent connection between sound mind and sound body. The student body is representative of the demographic and financial diversity of the San Fernando Valley. The original GALS charter expired on June 30, 2021, and a 5-year renewal term was approved by the Los Angeles Unified School District (LAUSD) in November 2020. After the passage of SB 130 GALS received another 2-year term extension and the charter now expires on June 30, 2028. GALS serves a high-need student population, with 92% of students eligible for Free or Reduced-Price Meals, according to data collected by the California Department of Education (CDE). GALS serves a relatively high percentage of students with disabilities. Current GALS demographics include:

SY23-24	
Number of Students	154
Free/Reduced %	92%
Special Education %	17.7%
ELL	19%
Students of Color	96%
Latina	80%
Black	12%
Asian	4%
White	4%

The historical, current, and projected enrollment for GALS are below:

	Historical			Current	Projected			
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	27-28
6th	68	31	56	52	90	110	110	110
7th	79	65	37	65	60	95	90	110
8th	<u>81</u>	<u>70</u>	<u>61</u>	<u>37</u>	<u>60</u>	<u>60</u>	<u>90</u>	<u>90</u>
Total	228	166	154	154	210	265	290	310

This is the second CSFA financing for GALS, which issued \$13,795,000 in 2021. The 2024 financing will be the second issuance for this Borrower and is intended to be on parity with the 2021 Bonds.

PROJECT DESCRIPTION

The proceeds of the Note will be used to (1) finance and/or refinance the acquisition, construction, expansion, renovation, improvement, furnishing, and/or equipping of certain charter school educational facilities for GALS, located at and adjacent to 14200 Runnymede Ave., Van Nuys, 91405; (2) fund a debt service reserve fund for the Note; and (3) to pay certain expenses incurred in connection with the issuance of the Note.

Facilities Information				
Site	Landlord	Location	Purpose	Amount
Girls Athletic Leadership School Los Angeles	Valerio, LLC	14200 Runnymede Ave., Van Nuys, 91405	New Construction	\$4,500,000
Total Estimated Project Costs				\$4,500,000

GALS currently occupies a Prop. 39 facility. The aforementioned 2021 CSFA issuance was used to fund the construction of a 23,294 square foot two-story facility that will allow GALS to serve 330 plus students in sixteen classrooms. Construction is expected to be completed in May 2024 with students moving in that fall. Valerio LLC (Valerio), the borrower, intends to use the proceeds of the Note to fund around \$4,500,000 in cost overruns related to the 2021 project. The cost overruns included the following changes and challenges since the issuance of the 2021 Bonds:

1. Significant construction climate change increased costs by \$2.6 million;
2. Missing HVAC in the original project scope - \$800,000;
3. Mold issues arising from unprecedented precipitation in 2022/23 - \$800,000; and
4. Missing and defective modular units (electrical design issues, HVAC changes, roof issues): \$1.8 million

The lender, the Nonprofit Finance Fund (NFF), is an over four-decade-old Community Development Financial Institution (CDFI) that provides loans, working capital, new market tax credits, and other funding sources to help nonprofits and social enterprises expand opportunities in their communities. They are headquartered in Manhattan.

NFF / Orrick, Herrington & Sutcliffe LLP Relationship

Orrick, Herrington & Sutcliffe LLP (“Orrick”) represents NFF as the lender’s counsel in the proposed transaction. In the proposed loan to the Borrower, structured as a conduit loan through CSFA, Orrick would act as NFF’s counsel. Although Orrick would not have an attorney-client relationship with CSFA on the GALS transaction, Orrick would perform most, if not all, of the tasks ordinarily performed in other transactions when acting as bond counsel to CSFA. While these tasks are associated with the role of “bond counsel”, there is no legal or ethical requirement that the firm performing these tasks be retained by the conduit issuer. In this transaction, NFF and GALS have agreed that Orrick should perform these tasks because of its prior experience in doing so on similar transactions. The only difference in this transaction would be that Orrick’s client relationship is not with CSFA, but instead with NFF. Therefore, in this transaction, the Attorney General’s Office will represent CSFA (as issuer’s counsel), without the need for an additional law firm to act as CSFA’s outside bond counsel.

The financing will be structured as a tri-party loan, with NFF as the lender, CSFA as the conduit loan facilitator, and Valerio, LLC as the borrower. The intercept will allow NFF to be in a parity position with the Series 2021 Bonds with respect to revenues of GALS as compared to a conventionally structured loan.

FINANCING

The Note will be executed and delivered pursuant to a tri-party loan agreement among CSFA, NFF, and the Borrower.

Security and Source of Payment: The Note will be secured by an obligation issued pursuant to a three party loan agreement, including a pledge of rental revenues and a mortgage on the financed property naming NFF as mortgagee. The lease with GALS will be subject to Intercept. GALS is required under the lease to maintain certain financial covenants. As additional security, and in connection with the issuance of the Note, GALS will provide instructions to the State Controller’s Office to make an apportionment to NFF in the amounts, and on the dates provided, in a written notice sufficient in the aggregate to repay the Note and pay necessary and incidental costs (the “Intercept”). Funds received by NFF pursuant to such Intercept will be applied solely for the payment of debt service on the Note. Under the laws of the State of California, no party, including the Borrower, GALS, or any of their respective creditors other than NFF will have any claim to the money apportioned or to be apportioned to the NFF 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	2024 Taxable Note
Note Proceeds	4,500,000
Total	4,500,000
Uses	
Project Fund Deposits	
Construction Fund	3,885,000
Delivery Date Expenses	
Costs of Issuance	72,600
Lender's Origination Fee	45,000
Other Uses of Funds	
Lender reserves and other closing costs	350,000
Contingency	148,400
Total	4,500,000

Total Costs of Issuance*

Expense	Amount (\$)
Issuer Fee	6,000
Financial Advisor	15,000
Annual Admin Fee	600
Issuer’s Counsel Fee	10,000
Borrower’s Counsel Fee	25,000
Lender’s Origination Fee	45,000
Title Insurance Fee	10,000
Appraisal Fee	5,000
Total	\$116,600

**Estimates based on principal amount of \$4,500,000.*

SALES RESTRICTIONS

The following sales restrictions will apply. The Authority's sales restrictions can be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

The Note will be non-transferable except to QIBs. The following restrictions will apply:

1. The Note will not be broken into smaller denominations;
2. The Note will be privately-placed with NFF;
3. NFF will be required to execute an Investor Letter;
4. Subsequent transfers of the Note will be limited to transfers to Qualified Institutional Buyers;
5. Sales restrictions will be conspicuously noted on the Note and described in detail in offering materials, if any, as well as included in the Loan documents; and
6. Loan repayments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code.

OTHER PROJECT DATA

Tax Equity and Fiscal Responsibility Act (TEFRA): No TEFRA as this is a private placement.

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, GALS 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, Valerio, LLC, is a California limited liability company and was formed in 2021 to support GALS, by, among other things, holding title to property and managing, operating and leasing property. The Borrower was formed as single purpose entity of which GALS 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 collateral for the 2021 Bonds and the Note. The Borrower was formed for the purpose supporting GALS, 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, GALS, 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 Authority Board approve Resolution Number 24-23 authorizing a Loan to the Authority in an amount not to exceed \$5,000,000, the issuance by the Authority of a Promissory Note evidencing the obligations of the Authority in connection with such Loan, and a Loan from the Authority to Valerio, LLC 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 Girls Athletic Leadership School Los Angeles.

1. **Applicant / Borrower:** Valerio LLC
2. **Project:** Construction of Facility and related costs
3. **Amount of Financing:** Not to exceed \$5,000,000
4. **Maturity:** 10 years (25 Year Amortization)
5. **Repayment/Security:** Intercept of Lease Payments and Deed of Trust on Real Property
6. **Preliminary Interest Rate:** 7.35%
7. **Preliminary Cost of Issuance:** The preliminary Costs of Issuance is \$116,600
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
Vanessa Garza	Executive Director and Founding Principal
Erica Younan	Assistant Principal

Board of Directors

Member	Role
Maggie Rosenfeld	Chair
Ari Engelberg	Treasurer
Janis Rovner	Secretary
Abra Sussman	Member
Deborah Robinson	Member
Gabriella Gonzalez	Member
Deidre Gainor	Member
Lauren Fite	Member

APPENDIX B: BUDGET PROJECTIONS

Fiscal Year	2023-24	2024-25	2025-26	2026-27	2027-28
Enrollment	150	210	265	290	310
Revenues					
State Revenue	1,968,347	2,783,112	3,607,442	4,073,566	4,496,103
Federal Revenue	715,892	422,089	389,813	417,869	440,314
Other State Revenue	834,740	1,471,897	1,133,651	1,206,267	1,127,014
Other Local Revenue	168,899	208,015	257,593	280,129	298,158
Grants/Fundraising	1,168,248	169,000	200,000	200,000	200,000
Other	5,855	-	-	-	-
Total Revenues	4,861,981	5,054,111	5,588,499	6,177,832	6,561,589
Expenses					
Certificated Salaries	1,188,362	1,256,923	1,437,200	1,625,088	1,690,092
Classified Salaries	306,215	307,407	319,703	332,491	345,791
Employee Benefits	398,143	429,382	476,050	546,407	570,031
Supplies	324,416	381,023	465,319	510,850	545,625
Operating Services	2,373,826	2,092,716	2,263,917	2,370,041	2,442,654
Capital Outlay	22,944	94,278	91,179	87,040	80,908
Other Outgo	45,074	350,046	350,046	350,046	350,046
Total Expenses	4,658,980	4,911,775	5,403,415	5,821,964	6,025,146
Net Income	203,001	142,336	185,084	355,867	536,443
Add: Lease Payments & Interest	766,720	1,098,185	1,100,118	1,097,453	1,097,453
Add: Depreciation	22,944	94,278	91,179	87,040	80,908
Net Income Available for Lease	992,666	1,334,799	1,376,381	1,540,361	1,714,803
Lease Payment	766,720	1,098,185	1,100,118	1,097,453	1,097,453
Lease Coverage	1.29	1.22	1.25	1.40	1.56