

**\$6,000,000\***  
**CALIFORNIA SCHOOL FINANCE AUTHORITY**  
**EDUCATIONAL FACILITY TAXABLE LOAN - SERIES 2024**  
**(ENVIRONMENTAL CHARTER SCHOOLS)**  
**ITEM #10 - RESOLUTION 24-40**  
**STAFF SUMMARY**

**EXECUTIVE SUMMARY**

<b>Applicant/Borrower:</b>	Menlo Charter Properties, a California nonprofit public benefit corporation (Menlo)	<b>Par Amount Requested:</b>	Not-to-Exceed * \$6,000,000
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<b>Financing Term:</b> Up to 35 years	<b>Interest Rate:</b> Not to exceed 5.25%
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**Applicant Description:** Menlo is a California nonprofit public benefit corporation formed, and operating exclusively for charitable and educational purposes by conducting or supporting activities for the benefit, or to carry out the purposes, of Environmental Charter Schools.

**Type of Financing:** Educational Facility Taxable Loan

<b>Project User:</b>	Environmental Charter Schools	<b>County Served:</b>	Los Angeles County
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<b>District in Which Project is Located:</b>	Los Angeles County Office of Education	<b>Charter Authorizer:</b>	Los Angeles County Office of Education
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**Project Description:** Acquire the facility (currently leased) housing Environmental Charter Middle School - Inglewood (ECS MS-I)

**Project Sites:** Environmental Charter School - Inglewood (ECS MS-I) 3600 W Imperial Hwy, Inglewood, CA 90303

<b>Financing Team:</b>		<b>Financing Details:</b>	
Bond Counsel:	N/A	<b>Type of Issue:</b>	Educational Facility Taxable Loan (Private Placement)
Lender:	Equitable Facilities Fund, Inc.	<b>Tax Status:</b>	Taxable
Lender's Counsel:	Orrick, Herrington & Sutcliffe LLP	<b>Maturity:</b>	Up to 35 years
Borrower's Counsel	Musick, Peeler & Garrett LLP	<b>Credit Enhancement:</b>	No
Issuer's Counsel:	Attorney General's Office	<b>Credit Rating:</b>	BB+
Issuer:	California School Finance Authority	<b>Fees:</b>	See Costs of Issuance Table
Master Trustee:	Wilmington Trust, N.A.		

**CSFA Analyst:** Mita Parikh

<b>Date of CSFA Board Meeting:</b> August 29, 2024	<b>Resolution Number:</b> 24-40
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**Staff Recommendation:** Staff recommends the California School Finance Authority Board approve Resolution Number 24-40 authorizing a loan in an amount not to exceed \$6,000,000, to finance/or acquire a project for educational facilities located In Los Angeles County for use by Environmental Charter Schools.

## BACKGROUND AND HISTORY

Environmental Charter Schools (ECS) is a California nonprofit public benefit corporation. ECS is the parent organization of a network of four schools in Los Angeles County currently serving a total of 1,543 students. Each school has its own charter. In March 2022, ECS entered into a loan agreement for \$27.8 million with the Equitable Facilities Fund (EFF) to acquire, renovate, and refinance three facilities for three of its four charter schools: Environmental Charter High School--Gardena (ECHS-G), Environmental Charter Middle School--Gardena (ECMS-G), and Environmental Charter Middle School--Inglewood (ECMS-I). The building being purchased with the proceeds of the loan will house ECSM-1. These three schools constitute the obligated group in reference to the 2022 loan. Most of the funds were used for the ECHS-G H.S. campus project. This high school opened in fall 2021 with only ninth grade, and this campus is expected to reach full expansion to 12th grade by 2025. In addition, loan proceeds were used to refinance loans for the two middle school campuses. The building being purchased with the proceeds of the loan will house ECSM-1. All three charters were authorized by the Los Angeles County Office of Education (LACOE).

Menlo Charter Properties (Menlo) was formed in 2013 and serves as the borrower. Menlo is a California nonprofit public benefit corporation. Menlo was formed, and operates, exclusively for charitable and educational purposes by conducting or supporting activities for the benefit, or to carry out the purposes, of ECS. Menlo's principal activities are to acquire, develop, rehabilitate, operate and maintain certain real property and improvements located in Los Angeles County, California for exclusive use and occupancy by ECS to operate one or more charter schools. The Board of Directors of ECS appoints three of the five directors of Menlo, and 2/3 majority of the Board of Directors of Menlo elects the remaining two directors of Menlo. Menlo is the sole member of each of MBB & Gardena LLC, Menlo 165th Place LLC, and Yukon LLC.

The Equitable Facilities Fund, Inc. (EFF) 2022 Loan transaction established a Master Trust Indenture (Indenture) for future ECS-EFF transactions. The financing for ECHG, ECMG and ECMI was completed pursuant to that Indenture, and the landlord entities, MBB & Gardena LLC, Menlo 165<sup>th</sup> Place LLC, and Yukon LLC, will become members of the obligated group created thereby. Menlo is the initial obligated group representative, and borrower under the Loan Agreement, but is not a member of the obligated group.

Current enrollment projections for the obligated group include Gardena MS, Gardena HS and Inglewood MS – combined below. Financial projections for this loan are included as Appendix A. ECS leadership is included as Appendix B.

	2024-25	2025-26	2026-27	2027-28	2028-29
<b>Lawndale HS</b>	490	515	524	524	524
<b>Gardena HS</b>	465	490	503	517	517
<b>Gardena MS</b>	360	360	360	360	360
<b>Inglewood MS</b>	360	360	360	360	360
<b>Total</b>	1,675	1,725	1,747	1,761	1,761

## PROJECT DESCRIPTION

The current project is for the acquisition of the 2.01-acre parcel of land and grade-level parking, as well as five structures approximating 13,579 sq. ft. including school buildings, a one-story church/office building, a restroom building, and a storage building. This was leased from Concordia Church but with the proposed EFF financing will be owned by Yukon LLC (ECS-related entity). ECS (through Yukon LLC) currently owns the other buildings on the site, approximating 10,740 sq. ft. In its entirety, the 2.01-acre parcel is composed of seven structures totaling ~24,319 sq. ft. The buildings were built between 1948 and 2017. The ~24,319 sq. ft. facility houses ~354 students in grades 6-8 (capacity of 360).

Bond Proceeds				
Site	Landlord	Location	Purpose	Amount
ECS – MS-I	Yukon LLC	3600 West Imperial Highway, Inglewood CA	Purchase	\$5,436,606
<b>Total Estimated Project Costs</b>				<b>\$5,436,606</b>

### **EFF / Orrick, Herrington & Sutcliffe LLP Relationship**

EFF is a Delaware-based nonstock nonprofit corporation that has 501(c)(3) tax-exempt status as a public charity. EFF was initially funded by philanthropic contributions from the Walton Family Foundation, and is organized to make low-cost, long-term, fixed rate loans to charter schools for facilities. The EFF program is set up as a revolving loan fund, so that as existing school loans are repaid, the loan repayment revenues can be used to make new loans. In addition, EFF has obtained, and will continue to seek, capital market financing in the form of tax-exempt bonds to leverage the revenue streams from their pool of school loans. Depending on the locations of the projects financed by the loans over time, EFF will issue bonds using various conduit issuers in various jurisdictions, and, as it did in connection with its first issuance of bonds in 2019, its second issuance of bonds in 2020, and its third issuance of bonds in 2021. EFF will use the proceeds of such bonds to reimburse itself for loans it previously originated, in order to make additional loans.

*Orrick, Herrington & Sutcliffe LLP (Orrick) represents EFF, and acts as its primary outside counsel on all lending and financing transactions nationally. Orrick’s relationship with EFF is managed by Eugene Clark-Herrera.*

In the proposed loan to the Borrower, structured as a conduit loan through CSFA, Orrick would act as EFF’s counsel. Although Orrick would not have an attorney-client relationship with CSFA on the ECS 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, EFF and ECS have agreed that Orrick should perform these tasks because of its prior experience in doing so on similar transactions. The only difference on this transaction would be that Orrick’s client relationship is not with CSFA, but instead with EFF. Therefore, in this transaction, the Attorney General’s Office will represent CSFA (as issuer’s counsel), without 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 EFF as the lender, CSFA as the conduit loan facilitator, and Menlo as the borrower. As with the previous loans through EFF, the intercept will lower the costs for ECS vs. a conventionally-structured loan.

**FINANCING**

The facility acquired with the proceeds of the Loan will be by MBB & Gardena LLC, Menlo 165<sup>th</sup> Place LLC, from Yukon LLC (Landlord) to ECS (Lessee), The Facility will be used to operate ECS -MS I.

**Security and Source of Payment**

The Loan will be secured by an obligation issued pursuant to a Master Indenture that establishes an Obligated Group, including a pledge of rental revenues and mortgages on all related property interests naming Master Trustee as mortgagee. The lease with Lessee will be subject to Intercept. Lessee is required under the lease to maintain certain financial covenants. As additional security, and in connection with the issuance of the Loan, ECS will provide instructions to the State Controller’s Office to make an apportionment to EFF with respect to ECHG, ECMG and ECMI in the amounts, and on the dates provided, in a written notice sufficient in the aggregate to repay the Loan and pay necessary and incidental costs (Intercept). Funds received by the Lender pursuant to such Intercept will be applied solely for payment of debt service on the Loan. Under the laws of the State of California, no party, including any Landlord, the Lessee, or any of their respective creditors will have any claim to the money apportioned or to be apportioned to the Lender 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 the time the Board meets, 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**

<b>Sources:</b>	<b>Series 2024A (Tax-Exempt)</b>	<b>Series 2024B (Taxable)</b>	<b>Total</b>
<b>Bond Proceeds</b>			
Par Amount:	-	\$5,436,606	\$5,436,606
<b>Total:</b>	<b>\$0</b>	<b>\$5,436,606</b>	<b>\$5,436,606</b>
<b>Uses:</b>	<b>Series 2024A (Tax-Exempt)</b>	<b>Series 202B (Taxable)</b>	<b>Total</b>
<b>Project Fund Deposit</b>			
Project #1: ECMS - 1	-	\$470,000.00	\$470,000.00
<b>Other Fund Deposits</b>			
Debt Service Reserve Fund:	-	\$336,606.00	\$336,606.00
<b>Delivery Dates Expenses</b>			
Cost of Issuance	-	\$350,000.00	\$350,000.00
<b>Total:</b>	<b>\$0</b>	<b>5,436,606</b>	<b>\$5,436,606</b>

### Total Costs of Issuance\*

Expense	Amount
Issuer Fee	\$ 8,229.91
Annual Admin Fee	\$ 822.99
Agent-for-Sale Fee	\$ 3,500.00
Issuer's Counsel Fee	\$ 10,000.00
Bond Counsel Fee	\$ 75,000.00
Borrower's Counsel Fee	\$ 120,000.00
Trustee Fee	\$ 1,500.00
Trustee's Counsel Fee	\$ 5,000.00
Title Insurance Fee	\$ 115,000.00
Contingency	\$ 8,075.45
Other: CDIAC Application Fee	\$ 2,871.65
<b>Total COI</b>	<b>\$ 350,000.00</b>

### 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 Loan will be non-transferable except between EFF and its affiliated entity, Equitable School Revolving Fund, LLC (ESRF), and in the case of default, 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 EFF and/or ESRF;
3. EFF and ESRF will each be required to execute an Investor Letter;
4. Subsequent transfers of the Note will be limited to transfers between EFF and ESRF or to Qualified Institutional Buyers in the case of a default;
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;
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):** Not applicable as this is a taxable loan.

**Due Diligence Undertaken to Date:** The financial, operating and other information concerning the Borrower, the Project and related matters presented in this Staff Summary was provided by the Borrower and Lender. The analysis contained herein was prepared by CSFA Staff for the limited purpose of determining financial feasibility pursuant to Section 17183.5 of the CSFA Act and providing the CSFA Board with information concerning certain aspects of the Project. The review undertaken by CSFA staff, the recommendation of CSFA Staff to the CSFA Board to approve the financing, or any approval by the CSFA 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:** Menlo was formed in 2013 and serves as the borrower. Menlo is a California nonprofit public benefit corporation. Menlo was formed, and operates, exclusively for charitable and educational purposes by conducting or supporting activities for the benefit, or to carry out the purposes, of ECS. Menlo's principal activities are to acquire, develop, rehabilitate, operate and maintain certain real property and improvements located in Los Angeles County, California for exclusive use and occupancy by ECS to operate one or more charter schools.

## STAFF RECOMMENDATION

Staff recommends the California School Finance Authority's (CSFA) Board approve Resolution Number 24-40 authorizing the Educational Facility Taxable Loan in an amount not to exceed \$6,000,000 to acquire, an educational facility from landlord, Yukon LLC, located in Los Angeles County, California for use by Menlo Charter Properties, a California nonprofit public benefit corporation.

1. **Applicant / Borrower:** Menlo Charter Properties, a California nonprofit public benefit corporation
2. **Project:** Purchase of facility for ECS- MS I
3. **Amount of Financing:** Not –to- exceed \$6,000,000
4. **Maturity: Up to 35 years**
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** Not to exceed 5.25%
7. **Fees:** \$350,000\* is the total Costs of Issuance
8. **Not an Unconditional Commitment:** The CSFA resolution shall not be construed as unconditional commitment to finance the Project, but rather CSFA's approval pursuant to the resolution conditioned upon entry by CSFA and the Borrower into a loan agreement, in form and substance satisfactory to CSFA and its counsel.
9. **Limited Time:** The Board's approval expires 12 months from the date of its adoption. Thus, CSFA must enter into the loan agreement no later than 12 months from such date. Once the approval has expired, the item must return to the Board for new approval.



# APPENDIX A: ESTIMATED BUDGET AND ENROLLMENT (PROJECTED)

EFF Financial Worksheet Template									
INSTITUTION NAME:	Environmental Charter Schools (Network)								
Fiscal Year	2021	2022	2023	2024	2025	2026	2027	2028	2029
<b>GENERAL</b>									
Fiscal Year End	06/30/2021	06/30/2022	06/30/2023	06/30/2024	06/30/2025	06/30/2026	06/30/2027	06/30/2028	06/30/2029
Statement Basis	Audited	Audited	Audited	Annual	Projected	Projected	Projected	Projected	Projected
<b>Student Demand and Enrollment</b>									
Number of Schools (Network)	4	4	4	4	4	4	4	4	4
Grades Offered	6-12	6-12	6-12	6-12	6-12	6-12	6-12	6-12	6-12
Total FTE Enrollment (Daily Avg Attendance)	1,225	1,329	1,461	1,543	1,675	1,725	1,747	1,761	1,761
<b>Revenues</b>									
Per Pupil Funding:									
State Funding	13,301,684	16,831,807	20,395,489	23,842,819	26,756,425	28,080,995	28,504,901	29,624,620	30,193,298
Federal Funding	1,307,196	2,188,755	1,373,915	1,356,675	1,283,734	1,356,409	1,375,517	1,385,021	1,393,243
ESSER/Covid Related Grants	1,283,205	967,100	3,155,860	2,158,642					
Debt Forgiveness	1,949,202	2,307,522							
Employee Retention Credit			2,608,437						
Rental Income (Menlo)				1,800,338					
In-Lieu Property Tax Revenue	2,555,645	2,966,520	3,536,015	4,230,991	4,716,582	4,883,889	4,945,547	4,995,154	4,995,154
Other Revenue	246,465	387,048	331,178	465,046	213,802	160,000	160,000	160,000	160,000
Grants/Fundraising/Contributions	617,138	511,077	811,625	1,300,405	729,938	604,938	554,938	554,938	554,938
<b>Total Revenue</b>	<b>21,260,535</b>	<b>26,159,829</b>	<b>32,212,519</b>	<b>35,154,916</b>	<b>33,700,481</b>	<b>35,086,231</b>	<b>35,540,903</b>	<b>36,719,733</b>	<b>37,296,633</b>
<b>Expenses</b>									
Program Services	13,696,166	20,216,928	23,998,214	25,783,706	26,695,627	27,359,783	27,688,159	28,268,139	28,847,233
Management and General	1,186,187	1,429,566	215,907	3,967,380	3,371,682	3,424,920	3,438,455	3,471,734	3,501,735
Fundraising and Community Service	51,126	55,152	111,400						
Occupancy Expense	1,461,847	2,136,835	2,642,828	2,674,095	3,150,403	3,150,403	3,150,403	3,178,613	3,207,670
Depreciation	517,062	491,794	418,152	489,580	205,794	205,794	205,794	198,776	108,770
Interest Expense	485,400	497,652	1,301,728	1,167,972					
<b>Total Expenses</b>	<b>17,397,788</b>	<b>24,827,927</b>	<b>28,688,229</b>	<b>34,082,733</b>	<b>33,423,506</b>	<b>34,140,900</b>	<b>34,482,811</b>	<b>35,117,262</b>	<b>35,665,408</b>
<b>Excess of Revenue Over Expense</b>	<b>3,862,747</b>	<b>1,331,902</b>	<b>3,524,290</b>	<b>1,072,183</b>	<b>276,975</b>	<b>945,331</b>	<b>1,058,092</b>	<b>1,602,471</b>	<b>1,631,225</b>
Depreciation & Amortization	517,062	491,794	418,152	489,580	205,794	205,794	205,794	198,776	108,770
Annual Lease Expense	1,461,847	2,136,835	2,642,828	2,674,095	3,150,403	3,150,403	3,150,403	3,178,613	3,207,670
Annual Interest Expense	485,400	497,652	1,301,728	1,167,972					
<b>Cash Available for Debt Service</b>	<b>6,327,056</b>	<b>4,458,183</b>	<b>7,886,998</b>	<b>5,403,830</b>	<b>3,633,172</b>	<b>4,301,528</b>	<b>4,414,289</b>	<b>4,979,860</b>	<b>4,947,665</b>
Principal Payments									
Lease-Adjusted ADS	1,947,247	2,634,487	3,944,556	3,842,067	3,150,403	3,150,403	3,150,403	3,178,613	3,207,670
Lease-Adjusted MADS	3,944,556	3,944,556	3,944,556	3,842,067	3,207,670	3,207,670	3,207,670	3,207,670	3,207,670
<b>OPERATING RATIOS</b>									
Lease-Adjusted ADS Coverage	3.25	1.69	2.00	1.41	1.15	1.37	1.40	1.57	1.54
Lease-Adjusted MADS Coverage	1.60	1.13	2.00	1.41	1.13	1.34	1.38	1.55	1.54
<b>STATEMENT OF FINANCIAL POSITION</b>									
Unrestricted Cash & Investments	6,926,410	12,696,817	15,343,475	11,260,806	8,211,701	10,121,314	11,125,712	12,559,196	14,054,337
Days Cash on Hand	149.8	190.4	198.1	122.4	90.2	108.9	118.5	131.3	144.3



**APPENDIX B:  
SCHOOL GOVERNANCE**

***Officers***

Farnaz Golshani Flechner	Superintendent
Danielle Kelsick	Deputy Superintendent of Instruction
Dr. Shalene Wright	Director of SPED and English Language Development
Jeremiah David	Director of Compliance and Operations
Alison S. Diaz	Director of Growth & Sustainability
Tracy Bondi	Director of Finance
Jen Fenton	Director of Strategic Initiatives
Sarah Jameison	Director of Human Resources
Cesar Delgado	Social Work Specialist

***Board of Directors***

Betsy Hamilton	President
Anthony Jowid	Vice President
Denise Berger	Secretary
Dr. Madhu Chatwani	Trustee
Andrew Ellenbogen	Trustee
Zena Fong	Trustee
Kennedy Hilario	Trustee
Jenina Ramirez	Trustee
Herbert Sims	Trustee
Mason Williams	Trustee