

MEMORANDUM

Staff Summary No. 6

Date: March 19, 2025

To: Members of the California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Subject: Resolution No. 25-07

Background: At the February 27, 2025, meeting of the California School Finance Authority (Authority), the Board approved the issuance of Charter School Grant Anticipation Notes (GANs) in an amount not-to-exceed \$36,000,000 for Magnolia Educational & Research Foundation dba Magnolia Public Schools (MPS) pursuant to Resolution Number 25-05 (Original Resolution). The Staff Summary describing the project was previously approved at the February 27, 2025, meeting and reattached as Exhibit A. The Original Resolution provided that the repayment of the GANs would be secured by an intercept of certain funds (the Intercept) by the Controller of the State of California (the State Controller) pursuant to Section 17199.4 of the California Education Code.

Issue: The source of repayment for the GANs, a Charter School Facilities Program (CSFP) apportionment from the State Allocation Board (SAB), however, cannot be intercepted by the State Controller. Therefore, instead of utilizing the Intercept, the borrower has requested the cooperation of the Department of General Services (DGS) and Office of Public School Construction (OPSC) to disburse certain funds under the Charter School Facilities Program (CSFP) directly to the GANs trustee. Funds will only be released once MPS has demonstrated to DGS and OPSC that it has met all Program eligibility and Final Apportionment requirements.

Resolution Number 25-07 provides for an exception from the Authority's Bond Issuance Policies, which require conduit revenue bonds or notes issued by the Authority be secured by an Intercept.

Recommendation: Staff recommends the Board adopt Resolution No. 25-07, which approves the issuance of the GANs, and provides for an exception from the Authority's Bond Issuance Policies.

\$36,000,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY (AUTHORITY)
CHARTER SCHOOL GRANT ANTICIPATION NOTES
(MAGNOLIA PUBLIC SCHOOLS - OBLIGATED GROUP – ISSUE NO. 2)
SERIES 2025 \$35,000,000 (TAX-EXEMPT) AND 2025B \$1,000,000 (TAXABLE)
ITEM #6 RESOLUTION #25-05
STAFF SUMMARY

Applicant/Borrower:	Magnolia Properties Management, Inc.
Par Amount Requested:	Not-to-Exceed * \$36,000,000
Financing Term:	Fixed-rate, 2-year term, with mandatory pay-down upon receipt of CSFP funds
Projected Interest Rate:	5.25%
Applicant Description:	Magnolia Educational & Research Foundation dba Magnolia Public Schools is a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 that operates charter schools. Magnolia Properties Management, Inc., a California nonprofit public benefit corporation, will be the borrower (Borrower). The Borrower was formed for the specific purpose of supporting Magnolia Public Schools, which will own the subject facilities.
Type of Financing:	Tax-Exempt and Taxable Grant Anticipation Notes
Project User:	Magnolia Science Academy 5
County Served:	Los Angeles County
District in Which Project is Located:	Los Angeles Unified School District
Charter Authorizer:	Los Angeles County Office of Education
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 Los Angeles County, CA; pay capitalized interest; and pay certain costs of issuance.
Project Site:	7111 Winnetka Ave., Winnetka, CA 91306
Financing Details:	Type of Issue: Grant Anticipation Notes Tax Status: Tax-Exempt & Taxable Maturity: Not to exceed 2027 Credit Enhancement: n/a Credit Rating: n/a Fees: See Costs of Issuance Table
Financing Team:	Bond Counsel: Orrick, Herrington & Sutcliffe LLP Underwriter: Stifel, Nicolaus & Company Incorporated Borrower’s Counsel: Musick Peeler & Garrett LLP Issuer’s Counsel: Office of the Attorney General Financial Advisor: Buck Financial Bond Trustee: UMB Bank, National Association
CSFA Analyst:	Robby Biegler
Date of Staff Report:	February 20, 2025
Date of CSFA Board Meeting:	February 27, 2025
Resolution Number:	25-05

Staff Recommendation: Staff recommends the Authority Board approve Resolution Number 25-05 authorizing the issuance of Grant Anticipation Notes in an amount not to exceed \$36,000,000 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 Magnolia Public Schools.

BACKGROUND AND HISTORY

Magnolia Educational & Research Foundation dba Magnolia Public Schools (MPS) is a charter management organization that operates ten campuses in Los Angeles, Orange and San Diego Counties. MPS opened its first campus, Magnolia Science Academy 1 (MSA1) in Reseda in 2002 and has operated for more than two decades plus in California, with the majority of its schools in the greater Los Angeles area. Currently student population at the ten campuses is 3,794. The MPS curriculum emphasizes science, engineering, technology and math.

Magnolia Properties Management, Inc. (MPM) is a California nonprofit public benefit corporation that was formed for the specific purposes of supporting MPS. This will be the fourth CSFA issuance on behalf of MPS. In 2014 CSFA issued \$6,020,000 in bonds for the MSA1 campus. In 2017 CSFA issued \$25,000,000 in bonds for the MSA 1, Magnolia Science Academy San Diego (MSSD), and Magnolia Science Academy Santa (MSSA) Campuses. In a separate February agenda item, MPM is also requesting approval of a not-to-exceed bond financing of \$45,000,000 to refinance the outstanding amounts of the 2014 and 2017 bonds as well as a separate outstanding loan. This proposed second 2025 financing would issue a not-to-exceed amount of \$36,000,000 in Grant Anticipation Notes (GANS) to preemptively fund project costs for Magnolia Science Academy 5 (MSA5). The GANS would be paid with the final apportionment of an outstanding Charter School Facility Program (CSFP) award. CSFA also administers the CSFP program. Details of that project can be found in the Project Description section. MSA5 first opened in Winnetka, in the western San Fernando Valley, in 2008. The current charter for MSA 5 expires on June 30, 2026.

Network and obligated group charter term, demographic and enrollment details are below. All payments are payable from the single MPS entity, so technically all schools are obligated group schools despite the financings benefiting just the four MPS campuses.

Student Demographics - 2024-25						
School	Total Students	% FRPM	% ELL	% Latino	% African American	% White
Financed Schools						
MSA-1	746	86.2%	25.2%	88.6%	0.9%	3.9%
MSA-SD	464	36.2%	2.6%	33.8%	3.7%	36.9%
MSA-SA	524	79.8%	26.1%	81.1%	1.3%	13.7%
MSA-5	218	83.5%	28.4%	83.9%	1.8%	6.0%
Non-financed Schools						
MSA-2	514	92.6%	17.5%	91.1%	3.1%	3.1%
MSA-3	411	72.3%	4.6%	54.5%	42.3%	0.2%
MSA-4	132	89.4%	16.7%	85.6%	6.1%	5.3%
MSA-6	128	93.0%	16.4%	89.1%	5.5%	1.6%
MSA-7	272	83.1%	30.5%	69.1%	5.1%	14.0%
MSA-8	385	79.5%	17.1%	93.5%	0.3%	4.9%
Total	3,794	77.8%	18.4%	76.2%	67.0%	9.7%

<u>School</u>	<u>Grades Served</u>	<u>2023-24 Enrollment</u>	<u>2024-25 Enrollment</u>	<u>1st School Year</u>	<u>Charter Expiration</u>	<u>Charter Authorizer</u>
<u>Financed Schools</u>						
MSA-1*	6-12	714	746	2002	6/30/2030	LACOE
MSA-SD*	6-8	439	464	2005	6/30/2028	SDUSD
MSA-SA*	TK-12	504	524	2008*	6/30/2027	SBE
MSA-5	9-12	218	218	2008	6/30/2026	LACOE
Subtotal - Financed Schools		1,875	1,952			
<u>Non-financed Schools</u>						
MSA-2	6-12	532	514	2007	6/30/2030	LACOE
MSA-3	6-12	389	411	2008	6/30/2025**	LACOE
MSA-4	6-12	124	132	2008	6/30/2026	LAUSD
MSA-6	6-8	111	128	2009	6/30/2027	LAUSD
MSA-7	TK-5	280	272	2010	6/30/2027	LAUSD
MSA-8	6-8	404	385	2010	6/30/2028	LAUSD
Subtotal - Non-financed Schools		1,840	1,842			
Total Network		3,715	3,794			

*Financed in separate Bonds transaction.

The historical, current, and projected enrollment for MPS include:

<u>School</u>	<u>Historical</u>	<u>Current</u>	<u>Projected</u>				
	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2027-28</u>	<u>2028-29</u>	<u>2029-30</u>
<u>Financed Schools</u>							
MSA-1*	714	746	767	800	820	820	870
MSA-SD*	439	464	465	474	484	493	503
MSA-SA*	504	524	528	545	575	600	650
MSA-5	218	218	220	350	460	460	510
Subtotal - Financed Schools	1,875	1,952	1,980	2,169	2,339	2,373	2,533
<u>Non-financed Schools</u>							
MSA-2	532	514	513	513	600	664	664
MSA-3	389	411	420	435	455	475	500
MSA-4	124	132	134	136	139	142	145
MSA-6	111	128	160	200	240	280	300
MSA-7	280	272	287	362	470	470	470
MSA-8	404	385	382	410	430	450	470
Subtotal - Non-financed Schools	1,840	1,842	1,896	2,056	2,334	2,481	2,549
Total	3,715	3,794	3,876	4,225	4,673	4,854	5,082

*Financed in separate Bonds transaction.

MPS is projecting enrollment growth in the next six or so years attributable, according to them, to a few factors:

1. Four new MPS school sites to be opened in greater Orange County, servicing the Placentia-Yorba Linda Unified School District; Orange Unified School District; Irvine Unified School District; Saddleback Unified School District; and Anaheim Unified School District.
2. The awarding of \$11 million through the Federal Expansion & Replication of High Quality Charter Schools Grant for a five-year program supporting 2,676 new students.
3. MPS's ongoing partnership with the Charter School Growth Fund.
4. Grade level additions and facility expansion, including the CSFP facility for Magnolia Science Academy 5.

PROJECT DESCRIPTION

The proceeds of the notes will be used to: (1) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of certain charter school educational facilities for MPS, located at: 7111 Winnetka Ave., Winnetka, CA 91306; and (2) to pay certain expenses incurred in connection with the issuance of the Notes.

Facilities Information				
Site	Landlord	Location	Purpose	Amount
Magnolia Science Academy 5	MPM Sherman Winnetka LLC	7111 Winnetka Avenue Winnetka, CA 91306	Grant Anticipation Notes	\$30,000,000
Total Estimated Project Costs				\$30,000,000

At the October 2022 meeting, the CSFA Board found MPS financially sound for \$50,832,322 for MSA5 under the Charter School Facilities Program. That award financed the demolition of an existing structure at 7111 Winnetka as well as construction of a new classroom building and gymnasium. The new facility will include three classrooms for grade six, six classrooms for grades seven to eight, and ten classrooms for grades nine to twelve, enabling MSA5 to serve up to 500 students.

In 2023, MSA5 received \$13,832,733 in an advance apportionment under the CSFP. The outstanding amount, or final apportionment, of \$36,999,589, has to be converted by October 26, 2026 (or October 26, 2027, if an extension is approved). MPS expects to receive an apportionment later this year through the Spring or Fall bond sale, therefore, is structuring the GANS around its final apportionment. The GANS are redeemable / callable upon receipt of the final apportionment, but otherwise the maturity will be two years. MPM needs bridge financing to pre-order outstanding construction costs. Owing to ongoing supply-chain issues, lead times for construction materials have become increasingly long and difficult to navigate. The GANS mimic other short-term notes CSFA has issued with a somewhat longer duration, but without the aforementioned call feature when CSFP funds are received.

FINANCING

Borrower: MPM will be the Borrower. MPM and acts as representative of an Obligated Group of which MPM Sherman Winnetka LLC, a California limited liability company, is a member. MPM Sherman Winnetka LLC will use proceeds of the GANS to make a loan to MPS.

Security and Source of Payment: The Series 2025 Notes and the interest thereon are payable solely out of certain revenues and income received by the Authority or the Trustee pursuant to the Loan Agreement. MPS will enter into a security agreement encumbering MPS's right to receive CSFP funding, and/or the proceeds of such funding, as security for the loan from MPM Sherman Winnetka LLC, MPM Sherman Winnetka LLC will enter into a security agreement encumbering its interest in the loan to MPS as security for the GANS. Magnolia Public Schools, as the borrower from MPM Sherman Winnetka LLC, lessor, is required to maintain certain financial covenants under its loan agreement with MPM Sherman Winnetka LLC.

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:	Series 2025A (Tax-Exempt)	Series 2025B (Taxable)	Total
Bond Proceeds			
Par Amount:	\$30,580,000	\$0	\$30,580,000
Total:	\$30,580,000	\$0	\$30,580,000
Uses:	Series 2025A (Tax-Exempt)		Total
Project Fund Deposit			
Cash Deposit	\$30,000,000	\$0	\$30,000,000
Cost of Issuance	\$396,935	\$0	\$396,935
Underwriter Discount	\$180,422	\$0	\$180,422
Additional Proceeds	\$2,643	\$0	\$2,643
Total	\$30,580,000	\$0	\$30,580,000

Total Costs of Issuance*

Expense	Amount
Issuer Fee	\$22,935
Agent-for-Sale Fee	6,500
Issuer's Counsel Fee	20,000
Bond Counsel Fee	75,000
Borrower's Counsel Fee	75,000
Financial Advisor Fee	97,500
Underwriters/Disclosure Counsel Fee	65,000
Trustee/Trustee Counsel Fee	5,000
Financial Printer & Roadshow Fee	5,000
Underwriter's Discount	180,422
Contingency Budget	15,000
Total	\$567,357

**Estimates based on principal amount of \$36,000,000.*

SALES RESTRICTIONS

The GANs are expected to be unrated. Therefore, sales restrictions include:

Minimum denominations of \$100,000, and one or more of the following will be required depending on the transaction, as requested by the financing team and approved by the Authority:

- a. Traveling Investor Letter; or
- b. Higher minimum denominations of \$250,000; or
- c. Physical Delivery; or
- d. Limited initial sale to QIBs, with subsequent transfers limited to QIBs as well; or
- e. Other investor protection measures
- f. Bond payments 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): The TEFRA Notice was published on the Authority's Webpage on February 20, 2025. The TEFRA hearing will take place on February 27, 2025, prior to the Board meeting, and no comments are anticipated. If any are received, they will be reported at the meeting.

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, Magnolia Public Schools 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: MPM Sherman Winnetka LLC will operate as single purpose entity of which Magnolia Properties Management, Inc., will be the sole member at the time of issuance of the Notes, with no assets other than the loan made by it to Magnolia Public Schools and its rights under the loan agreement, which will be assigned to the Master Trustee. Magnolia Properties Management, Inc. was formed for the purpose supporting Magnolia Public Schools, 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 borrower from MPM Sherman Winnetka LLC, Magnolia Public Schools, is a California nonprofit public benefit corporation and organization described in Section 501(c)(3) of the Code.

STAFF RECOMMENDATION

Staff recommends the board adopt Resolution 25-04 authorizing the issuance of grant anticipation notes in an amount not to exceed \$36,000,000 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 Magnolia Public Schools.

1. **Applicant / Borrower:** Magnolia Properties Management, Inc.
2. **Project:** Acquisition of Facility and related costs
3. **Amount of Financing:** Not to exceed \$36,000,000
4. **Maturity:** 2 years (Not-to-exceed 2 years)

5. **Repayment/Security:** Security interest in loan made to Magnolia Public Schools (MPS), which loan in turn is secured by MPS's right to receive CSFP funding and/or the proceeds of such funding.
6. **Preliminary Interest Rate:** 5.25%
7. **Preliminary Cost of Issuance:** The preliminary Costs of Issuance is \$577,357
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 notes 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
Alfredo Rubalcava	Chief Executive Officer
Erdinc Acar	Deputy Superintendent
Brenda Olivares	Chief Impact Officer
Cori Tate Ravare	Chief Schools Officer
Gokhan <u>Serce</u>	Chief Academic Officer
Patrick Ontiveros	General Counsel & Director of Facilities
Steve Budhreja	Chief Financial Officer
Suat Acar	Chief Operations Officer

Board of Directors

Member
Mekan <u>Muhammedov</u> , Chair
Sandra Covarrubias, Vice Chair
Umit <u>Yapanel</u> , Member
Salih <u>Dikbas</u> , Member
Diane Gonzalez, Member
Naim Bayraktar, Member

APPENDIX B: BUDGET PROJECTIONS

MPS GANs - Projected Repayment Schedule									
	April 2025	May 2025	June 2025	July 2025	August 2025	September 2025	October 2025	November 2025	December 2025
Final Apportionment from OPSC ⁽¹⁾	-	-	-	-	-	-	-	-	36,999,599
Principal Redemption	-	-	-	-	-	-	-	-	30,580,000
Payoff of Accrued Interest	-	-	-	-	-	-	-	-	951,378
Total Debt Service	-	-	-	-	-	-	-	-	31,531,378
Coverage	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.17x
Beginning Principal Balance	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000
Principal Redemption	-	-	-	-	-	-	-	-	(30,580,000)
Ending Principal Balance	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000	30,580,000	-

⁽¹⁾ Final apportionment expected by Septemeber 2025.