

# California Coalition for Adequate School Housing

## *Charter/LEA Facilities Agreements*

### *April, 2005*

Prepared by:  
Lodi U.S.D.  
Aspire Public Schools

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# Introduction (Prop 39 & Charter School)

- With the passage of Proposition 39, Districts are required to work with their charter schools to provide facilities.
- To address this requirement (Ed. Code 47614) and in an effort to work cooperatively with Aspire, Lodi staff developed a plan which reduced Aspires annual debt payments and fulfilled the District's requirements under Proposition 39.
- The plan protected the interests of the Lodi Unified School District and helped Aspire reduce its debt service costs.



## Introduction - Aspire Objectives

- To save money: \$164K saved in annual debt service, which will enable us to invest in software and staff to support our lowest-performing students
- To demonstrate that charters and sponsoring districts can have a mutually beneficial relationship; collaboration with districts is a key aspect of Aspire's approach.

# Introduction - Other Ways of Fulfilling Prop 39

- Other non-facility services, such as transportation, food, surplus FF&E
- Help with financing for facilities, e.g. access to state modulars, loan guarantee for facility loan, refinancing of existing debt

*Anything that saves money or provides something that charters need!*

## Comments



- Charter schools experience the same finance pressures that traditional public schools have to deal with.
- Aspire presented a letter to the Lodi Unified School District requesting help as required by law (Prop 39).
- Aspire Schools met with the District to discuss their needs. During the initial meetings strategies were discussed which could help the charter schools.
- Next, a financial team was established with representation from the District, Aspire Public Schools, finance and legal consultants.
- The team looked at a number of strategies to help Aspire. Those strategies included debt financing and cash flow.

# Discussion



- In the first meetings with Aspire staff, discussions focused on the needs of the charter schools. It was clear that cash flow was the overriding problem they were facing.
- Staff agreed to focus on the debt service of Aspire.
- The finance team was tasked with researching and developing recommendations for both Aspire and the District to consider.
  - The team had to research the current debt structure.
  - Determine if it was cost effective.
  - Examine various structural options and develop recommendations.

# Research Team



## 1. District Finance Staff

- a. Superintendent
- b. Chief Business Officer
- c. Controller
- d. Budget Director

## 2. Aspire Staff

- a. Chief Executive Officer/Co-Founder
- b. Chief Operating Officer

## 3. Financial Consultants

- a. Stone & Youngberg LLC
- b. Prager, Sealy & Co., LLC

## 4. Legal Council

- a. Kronick, Moskovitz, Tiedemann & Girard

# Research



- What is the current debt structure of Aspire Schools?
- May the District assist Aspire to reduce its existing debt?

## Tax-Exempt Lease Financing

- ◇ Lease Revenue Bonds under the Central Valley Schools Financing Authority (CVAL)
- ◇ Certificates of Participation under the “Lodi Unified School District Capital Facilities Corporation”

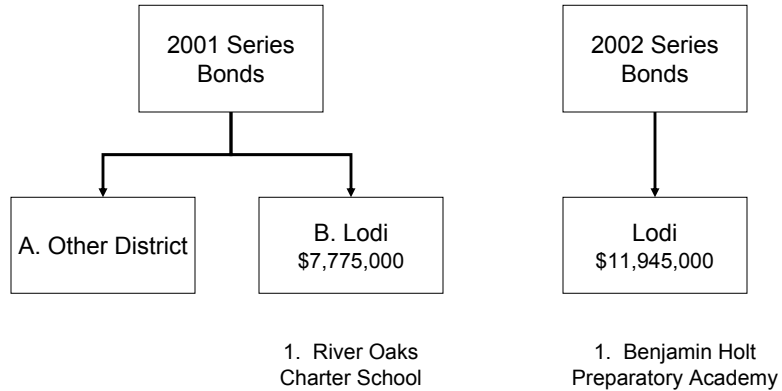
# What the Team Found



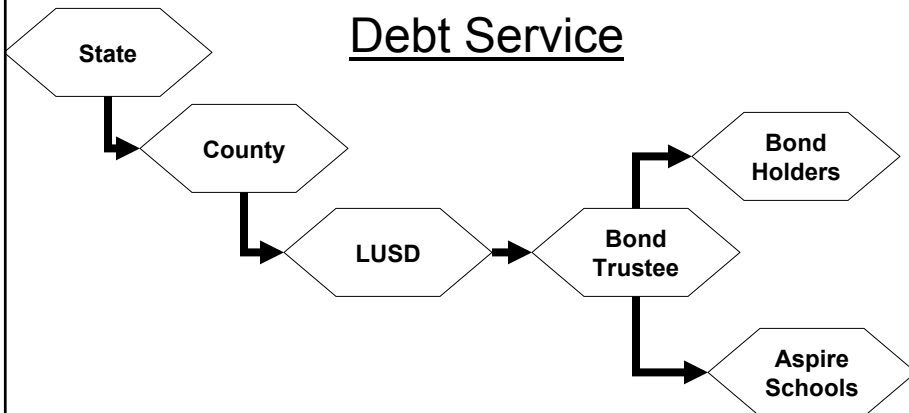
- Borrowing Cash

- Aspire Schools is a not-for-profit 501(C)(3) Corporation.
- They do not enjoy the same tax free borrowing privileges that public school districts have.
- Borrowing is more expensive.
- Current Debt Service – Bonds (7.25%).

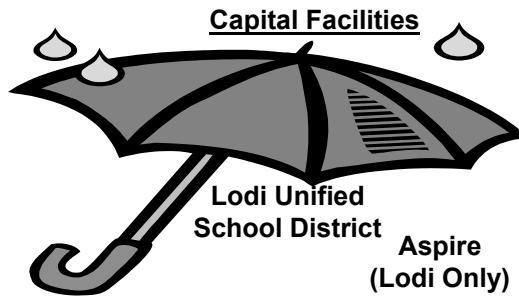
# Aspire Schools Capital Projects Funding



# The Flow of Cash Prior to Refinancing



# Financing Model



- Aspires existing debt could be refinanced.
- We could use the Capital Facilities Corporation.
- A lease/purchase agreement would be used to generate revenues needed to repay the debt.

# Proposed Refinancing



- Tax-Exempt lease financing
  - Under LUSD Capital Facilities Corporation
- Supports Prop 39 agreement
- Provided lower interest rates and annual payments for Aspire Charter Schools
- Transaction fees were included. The costs included:
  - Attorney (All costs, including preliminary feasibility work)

# What Happened?



1. The Lodi Unified School District Capital Facilities Corporation sold bonds necessary to pay off all of Aspire existing facility debt (*in the Lodi area only*).
2. Funds were used to liquidate existing debt.
3. Aspire saved \$170,000 annually, before closing costs are factored in.
4. Over the life of the debt Aspire will save \$4,696,673.
5. The Lodi Unified School District Capital Facilities Corporation has 1<sup>st</sup> Call on Aspire principal/special apportionments and property tax receipts. Remaining funds are being sent to Aspire Schools.

# Collateral



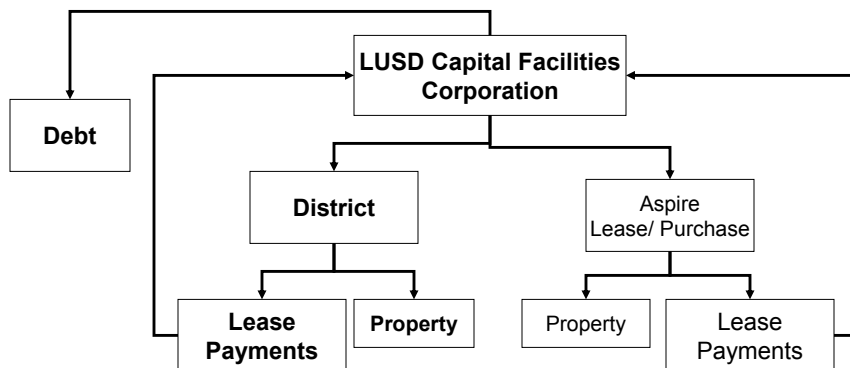
## There was a need to declare collateral:

- Existing Rock Creek Charter School and Benjamin Holt Preparatory Academy properties owned by Aspire were used as collateral.
- Lodi Unified School District property was also used as collateral.

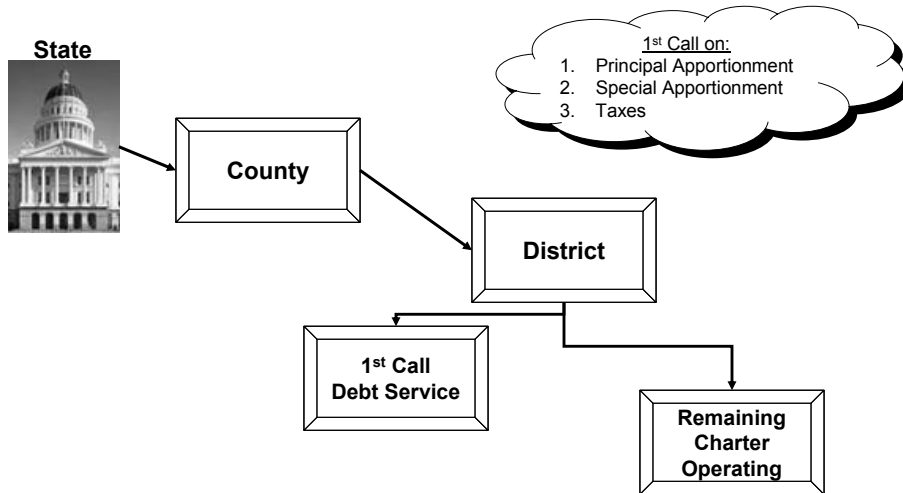
# Title to Property

- The District has First Call Debt Service on all tax income and Principal & Special Apportionment revenues.
- Local Revenue Limit Sources can be used for debt payments.
- Property ownership will stay with Aspire Charter Schools once all debt is paid off.
- Property would revert to the District if Aspire is unable to pay. (i.e. “Shut Down”)

# How the Model Works



# Apportionment Cash Flow



## DISTRICT FINANCIAL OBLIGATION



- The Prop 39 obligation to Aspire Charter Schools was met with this plan, without the use of Measure K funding or Developer Fee receipts.
- The plan secures all of the debt service with our general fund as a last resort.

## Operational Issues

- **Construction Oversight – Progress Payments**
  - Contractor to CM to Aspire to LUSD Facilities to LUSD Controller to Trustee
  - Trustee releases payments to Aspire to pay contractor
- **Construction Oversight – Contract Closeout**
  - District participation in process

## Operational Issues

- **Property Management**
  - Deal with them as they come up
  - This is now public property
- **Issues so Far...**
  - Lot Line Adjustment
  - Easements
    - ◇ USE EDUCATION CODE PROCESS
    - ◇ THREE SIGNATORIES
  - Cell Tower
  - What's Next???

## What if the Charter Disappears?

- **LUSD owns the debt**
- **LUSD owns the land and buildings**
  - Students will need housing**
  - District has a charter and can take over the program and the facility for that program**

## Results & Conclusions



- **Why did Lodi Unified School District get involved?**
  - It met Lodi's requirement to support Aspire under Prop 39.
  - It supports our on-going working relationship with Aspire Charter Schools
  - It reduced annual debt payment and lowered interest costs for Aspire Charter Schools.
  - There is a minimal risk to the District.

## Staff Recommended



- The Lodi Unified School District Capital Facilities Corporation sell bonds in sufficient amounts to retire existing Aspire debt on Lodi area properties and acquire title.
- For the Corporation to lease the property back to Aspire schools at a rate sufficient to make all debt payments.
- After all payments are made and debt is retired property title will be returned to Aspire.
- For staff to be directed by the Board to work with District financial consultants and legal counsel to complete the transaction.

# ***THE END***

