

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)  
501(c)(3) REVENUE BOND FINANCING PROGRAM**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	St. Michael's Episcopal Day School (School or Borrower)	<b>Amount Requested:</b>	Not to exceed \$4,478,000
<b>Applicant Description:</b>	The School is a California nonprofit religious corporation in operation since 1963 and incorporated as a 501(c)(3) non-profit in 1993. The School serves students from preschool through 8 <sup>th</sup> grade. The School is wholly owned by St. Michael's Episcopal Church (Church), but operates independently with a separate Board of Trustees.		
<b>Type of Financing:</b>	The Borrower requests issuance of conduit, fixed rate tax-exempt obligations.		
<b>Project Description:</b>	The conduit, fixed rate tax-exempt obligations will provide funding to finance and refinance the Borrower's existing loan with Umpqua Bank, the proceeds of which were used to finance several of the School's projects. All financed construction projects are complete. The refinancing with Five Star Bank will restructure the loan to have the School as the sole borrower and the Church as guarantor.		
<b>Project Site:</b>	2140 & 2120 Mission Avenue, Carmichael, California (Sacramento County) 4719 & 4741 Cottage Way Carmichael, California (Sacramento County)		
<b>Plan of Finance:</b>	IBank will issue conduit, fixed rate tax-exempt obligations in the principal amount not to exceed \$4.478 million (Obligations) through a private placement to Five Star Bank (Lender). The proceeds of the Obligations will be used to: (1) finance and refinance Borrower's existing loan, used to finance Borrower's school facilities located at 2120 & 2140 Mission Avenue and 4719 & 4741 Cottage Way in Carmichael, California; and (2) pay certain costs of issuance and other related costs.		
<b>Type of Issue:</b>	Private Placement		
<b>Tax Status:</b>	Tax-Exempt		
<b>Term:</b>	10 Years		
<b>Credit Enhancement:</b>	Limited Guarantee from St. Michael's Episcopal Church		
<b>Credit Rating:</b>	Unrated		
<b>Fees:</b>	Application Fee \$1,500; Issuance Fee \$11,195; Annual Fee \$500 per year		
<b>Estimated Sources of Funds:</b>		<b>Estimated Uses of Funds:</b>	
Obligations Proceeds	\$4,478,000	Refinance Loan	\$4,478,000
Borrower's Cash	\$16,195	Cost of Issuance	\$17,695
Bank Expense	\$1,500		
<b>TOTAL SOURCES</b>	<b>\$4,495,695</b>	<b>TOTAL USES</b>	<b>\$4,495,695</b>
<b>Financing Team:</b>	<b>Bond Counsel:</b>	Weintraub Tobin Chediak Coleman Grodin	
	<b>Purchaser/Lender:</b>	Five Star Bank	
<b>Public Benefits:</b>	The refinancing of the existing outstanding debt will result in an estimated annual savings of \$56,040. The reduction in debt service costs will enable the School to support an expansion of services to students and provide funding for the School's community outreach programs.		
<b>Date of Board Meeting:</b>	<b>Resolution Number:</b>	<b>Prepared by:</b>	
10/25/2016	16-27	John Belmont 9/30/2016	
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No.16-27 authorizing the issuance of Conduit Tax-Exempt Obligations in an amount not to exceed \$4,478,000 for the benefit of St. Michael's Episcopal Day School.			

## BACKGROUND AND HISTORY

St. Michael's Episcopal Day School (School), located in Carmichael, California, was founded in 1963. In 1993 the School was incorporated as a 501 (c)(3) non-profit religious institution. Legal authority for the operation of the school rests with the Board of Trustees. The Bishop of the Diocese of Northern California serves as Chairman of the Board. Authority for the day-to-day operation of the school is the responsibility of the Head of School who serves under the direction of the Board of Trustees.

The School is a private preschool and day school for grades K-8 and is accredited through the California Association of Independent School and the Western Association of Schools and Colleges. While the School is Episcopalian-based, it is open to students of all faiths. The School's current enrollment is comprised of approximately 248 students, approximately 12% of which are Episcopalian. The School supports its operations and activities by tuition fees and funds raised through fundraising activities.

The School's teachers have credentials and/or have advanced academic degrees. It is the mission of the School to provide a learning environment where students are inspired to think critically, act responsibly, lead compassionately and innovate wisely. Students are encouraged to seek scholastic, artistic and physical achievement through a curriculum that is both traditional and integrated.

The School and the St. Michael's Episcopal Church (Church) are located next to each other and share certain common use areas. The School pays 60% of the common costs and the Church pays for 40%.

The California Secretary of State reports active status for the Borrower.

Current leadership information is available in Appendix A.

## PROJECT DESCRIPTION

The School is requesting approval for the issuance of tax-exempt obligations in an amount not to exceed \$4,478,000 (Obligations).

The Obligations will provide funding to: (1) finance and refinance Borrower's existing loan used to finance Borrower's school facilities located at 2120 & 2140 Mission Avenue and 4719 & 4741 Cottage Way in Carmichael, California; and (2) pay certain costs of issuance and other related costs (Project).

The School and the Church jointly hold the properties located at 4719 Cottage Way and 2120 Mission Avenue. The School solely holds the ownership of the properties located at 4741, 4749/4751, 4701, and 4717 Cottage Way.

### Existing Debt Structure

In 2007, the School and the Church jointly issued a \$5,500,000 Series 2007, tax-exempt bonds with interest rate at 4.5% with Umpqua Bank and California Municipal Finance Authority (CMFA) as issuer (Series 2007 Bonds). The School and the Church used the proceeds of the Series 2007 Bonds for repayment of Series 2003 taxable variable rate

bonds the proceeds of which were used to finance construction of the School and the Church facilities and for repayment of the purchase of property located at 4741 Cottage Way.

The 2007 financing originally consisted of two promissory notes. In 2012, the School modified the 2007 financing into one loan with a current balance of \$4,478,410 and interest rate of 3.75%. The School currently pays the interest and sinking account payments on the 2012 note through the capital lease. The Church and the School are both liable for the repayment of the 2012 note.

The School has represented under its current existing loan that: (i) the School has sole use of the bond-financed buildings; (ii) the School is solely responsible for the operating expenses of the bond-financed buildings; (iii) the School is solely responsible for debt service payment on the bonds. The Church and the School have a 25-year lease agreement with three successive options to extend the term of the lease for additional 25 years for a *de minimis* annual rent of \$1.00.

The School has covenanted that it will not use the financed structures for religious purposes for their useful life.

The Obligations will refinance all existing School debt through a private placement with Five Star Bank. Five Star Bank meets the definition of a Qualified Institutional Buyer in Section 144(A) promulgated under the Securities Act of 1933, as amended. For the purpose of this Project, the School will be the Borrower and the Church will be the Guarantor or Accommodating Party.

See Appendix B--Project Photos.

## ELIGIBILITY FOR FINANCING BY A STATE AGENCY

The School is a **California non-profit religious corporation**. In connection with the issuance of the Obligations, Weintraub Tobin Chediak Coleman Grodin (Bond Counsel) was asked to provide a memorandum to IBank confirming that issuance of the Obligations would not violate applicable constitutional prohibitions of the “establishment of religion” (Constitutional Prohibitions). Under California law, **so long as** certain conditions, set forth in opinions of the California Supreme Court are met, the use of proceeds of obligations (such as the Obligations) issued by a public entity (such as IBank) by a religious institution (such as the School) would not violate the Constitutional Prohibitions.

Bond Counsel performed the necessary legal analysis and concluded that the proposed issuance of the Obligations by IBank meets the conditions as articulated in the controlling case of California Statewide Communities Development Authority v. All Persons Interested (2007) 40 Cal.4<sup>th</sup> 788 (CSCDA) as well as supported by related cases (collectively, Applicable Law).

Applicable Law provides that the Constitutional Prohibitions are not violated so long as the religious school, participating in the conduit financing program, (i) offers a broad curriculum in secular subjects, comprised of classes whose academic content is neutral with respect to religion, and (ii) the facilities built or improved with state funds are not used for theological or divinity programs or as a place of worship.

Based on its examination of relevant documents and its analysis of the Applicable Law, Bond Counsel concluded that the issuance of the Obligations for the benefit of the Borrower meet the conditions of Applicable Law. IBank attorneys reviewed the Applicable Law as well as Bond Counsel's analysis and concur in the conclusion that there are no constitutional obstacles to the issuance of the Obligations.

## FINANCING STRUCTURE

### IBank Term Sheet

#### St. Michael's Episcopal Day School

Date: October 25, 2016

<b>Par Amount:</b>	Not to exceed \$4,478,000; Tax-Exempt Obligations
<b>Type of Offering:</b>	Private Placement
<b>Lender:</b>	Five Star Bank, a California banking corporation
<b>Expected Credit Rating:</b>	None
<b>Interest*:</b>	5-year CMT + 235bps, fixed for 5 years, then 5-year CMT + 235bps, fixed for 5 years; Floor = start rate (currently 3.43%)
<b>Maturity:</b>	10 Years
<b>Collateral:</b>	Borrower and Guarantor's real and personal property.
<b>Expected Closing Date*:</b>	On or before one (1) month from October 25, 2016.
<b>Limited Guarantees:</b>	St. Michael's Episcopal Church.
<b>Conduit Transaction:</b>	The Obligations are special, limited obligations payable solely from payments made by the Borrower under the transaction documents and IBank shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank for all or any portion of payment to be made pursuant to the Obligations.

\*Please note that Interest Rate and Closing Date are subject to change.

### Financing Structure

IBank will issue conduit fixed rate tax-exempt Obligations with expected maturity up to 10 years and 25-year amortization. The Obligations will refinance the Borrower's current outstanding obligations issued by the CMFA. The Obligations will have an interest rate at the Initial Rate as defined below from the Closing Date through the fifth anniversary of the Closing Date. Then from the fifth anniversary of the Closing Date through the Maturity Date, the Obligations will have interest rate at the Adjusted Rate as defined below.

"Initial Rate" is a rate per annum equal to the 5-year constant maturity treasury (CMT) rate (as published by the Federal Reserve Board), plus 235 basis points and the Lender will

determine it on the Closing Date. "Adjusted Rate" is a rate per annum equal to CMT Rate plus 235 basis point and the Lender will determine it on the fifth anniversary of the Closing Date. The minimum Adjusted Rate per annum will be 3.43%.

The Church will be the guarantor of the Obligation.

### **Limited Obligations of IBank**

The Obligations are payable solely from and secured solely by the pledge of the Borrower's payments under the transaction documents. Neither IBank, nor any of the members of its Board of Directors, nor any of its officers or employees, nor any person executing the transaction documents on behalf of IBank shall be personally liable for the Obligations or subject to any personal liability or accountability by reason of the execution thereof. The Obligations are limited obligations of IBank and are not a pledge of the faith and credit of IBank or the State of California or any of its political subdivisions.

## **PUBLIC BENEFITS**

The proceeds of the Project will allow the School to recognize an annual debt service savings of \$56,040. The increased savings will allow the School to support an expansion of services to students and provide funding for the School's community outreach programs.

In addition to tuition, the School enjoys the community's support via the St. Michael's Annual Fund to cover operations. In 2015, the Annual Fund was \$182,969.

A report by the accreditation committee by the California Association of Independent Schools and the Western Association of School commended the School in the following areas:

- The articulation and implementation of its stated goals;
- The Board of Trustees for its dedication and hard work;
- The Parents Club for its active involvement and support for the School;
- The faculty for its enthusiasm and passion for teaching;
- The students for their dedication to excellence in character and academics; and
- The entire community for creating and sustaining an unusually caring environment.

The School has updated and remodeled the seven-acre campus facilities that include:

- Premier Gymnasium
- Hi-Tech Classroom Pods
- Resource Learning Centers
- Computer/Research Center
- Science Lab
- Math Lab
- Art Studio
- Central Library
- Extensive and Stimulating Free Play Areas
- Integrated Math, Arts, Science, and Technology Center

## OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES</b> <b>Describe:</b> Project completed.
TEFRA	
Date of TEFRA	9/15/16
Publications	The Sacramento Bee
Oral/Written Comments	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Explain:</b>
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> <b>NO</b> <input checked="" type="checkbox"/> <b>YES</b>
Issues?	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Explain:</b>
ELIGIBILITY REVIEW	
Does Applicant meet all of the IBank eligibility criteria? <input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b>	<ol style="list-style-type: none"> <li>1. The School is in the State of California.</li> <li>2. The School is capable of meeting the obligations incurred under relevant agreements.</li> <li>3. Payments to be made by the School to IBank under the proposed financing agreements are adequate to pay the current expenses of the IBank in connection with the financing and to make all the scheduled payments.</li> <li>4. The proposed financing is appropriate for the School.</li> </ol>
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES</b> Certificate No.: <input checked="" type="checkbox"/> <b>N/A</b> Date:

## RECOMMENDATION

Staff Recommendation: Staff recommends approval of Resolution No.16-27 authorizing the issuance of Conduit Tax-Exempt Obligations in an amount not to exceed \$4,478,000 for the benefit of the St. Michael's Episcopal Day School.

## APPENDIX A GOVERNANCE AND MANAGEMENT

<b>OFFICERS</b>	
Rt. Reverend Barry L. Beisner	Chairman of the Board Bishop Episcopal Diocese of Northern California Sacramento, CA
Kristine Hyde	President Owner Hyde Consulting Sacramento, CA
David Nickum	Vice President President/CEO Valley Farm Transport Dixon, CA
Michael Tate	Treasurer Partner Tate Private Wealth Advisors Sacramento, CA
Annie Kaplon	Secretary Owner Pilates Sacramento Sacramento, CA

<b>MEMBERS</b>	
George Dariotis	President/CEO Dariotis Group Restaurants, Inc. Sacramento, CA
Jack Downey	Account Executive Roche Biomedical Company Sacramento, CA
Gerry Kamilos	President/CEO Kamilos Development Gold River, CA
Gail McMichael	Vestry Member St. Michael's Episcopal Church Sacramento, CA
Jennifer Pulliam	Philanthropist Sacramento, CA
Carol Wieckowski Dreyer	Partner Evans, Wieckowski, Ward & Scoffield LLP Sacramento, CA

<b>EX OFFICIO</b>	
Rev. Mary Hudak, Rector	St. Michael's Church
Mary Heise	Head of School
Laura Lyon	Advancement Coordinator
Angie Meyer	Parent Club President

**APPENDIX B PROJECT PHOTOS**

Areal photo of campus





2120 and 2140 Mission Avenue, Carchichael, CA



Campus buildings



**APPENDIX C BORROWER'S FINANCIAL STATEMENTS 2013 – 2015**

Financial Statements will be emailed to the IBank Board of Directors.