

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Pueblo Serra Worship Holdings (“Borrower” or “PSWH”)	Amount Requested:	Not to exceed \$49,990,000
Applicant Description:	The Borrower is a California non-profit religious corporation founded in 2002. The Borrower is a subsidiary of St. Junipero Serra Catholic High School (“JSerra”), a California non-profit religious corporation.		
Type of Financing:	Conduit Tax-Exempt Fixed Rate Obligations (“Obligations”)		
Project Description:	The Project will provide funding to (1) finance and refinance the cost of acquisition, construction, furnishing and equipping of certain real property and improvements on an approximately 40 acre campus, including 64 classrooms, a library/media center, a gymnasium, aquatic center, sports fields, administrative offices and other ancillary educational facilities (collectively, the “Facilities”), and (2) pay certain costs of issuance of the Obligations.		
Project Site:	26300, 26311, 26331, 26351 and 26353 Junipero Serra Road, San Juan Capistrano, CA 92675-1635 (Orange County)		
Plan of Finance:	Upon issuance of the conduit tax-exempt fixed rate Obligations, IBank will loan the proceeds to the Borrower to use pursuant to a Loan Agreement to refund current outstanding balances of the IBank Variable Rate Demand Revenue Bonds (JSerra Catholic High School Project) Series 2013A, Series 2013B, Series 2013C and Series 2015A Bonds (collectively, the “Prior Obligations”) and finance additional improvements on the Facilities.		
Type of Issue:	Private Placement		
Tax Status:	Tax-Exempt		
Term:	25 Years		
Credit Enhancement:	No Credit Enhancement		
Credit Rating:	Not Rated		
IBank Fees:	Application Fee \$3,500; Issuance Fee \$55,000; Initial Annual Fee \$2,500 per year		
Estimated Sources of Funds:		Estimated Uses of Funds:	
Tax-Exempt Obligation Proceeds	\$49,990,000	Refunding	\$46,104,270
Borrower’s Equity	\$2,554,270	New Construction	\$6,190,000
		Costs of Issuance	\$250,000
TOTAL SOURCES	\$52,544,270	TOTAL USES	\$52,544,270
Financing Team:	Bond Counsel: Kutak Rock LLP		
	Private Placement Purchaser: Farmers and Merchants Bank of Long Beach (“F&M Long Beach”)		
Public Benefits:	JSerra contributes to the community by requiring students to complete 80 hours of public service within the San Juan Capistrano community and providing over \$8 million in financial aid and scholarships to its students. This refunding will result in: (1) issuance of the Obligations with fixed rate of interest for 10 years, which will result in annual savings of approximately \$1.3 million in addition to providing interest rate security by converting from a variable rate to a fixed rate; (2) releasing the existing guaranties on		

JSerra's Prior Obligations; and (3) amendment of the documents for more flexible covenants. The annual savings will allow JSerra to further its mission of offering an affordable parochial education in south Orange County, and continue to offer community recreation, sports programs, cultural events, financial aid and scholarships to its students. The additional proceeds of \$3.6 million will be used to finance improvements to JSerra's facilities.

Date of Board Meeting:
August 28, 2018

Resolution Number:
18-11

Prepared by:
John Belmont

Staff Recommendation: Staff recommends approval of the Resolution No. 18-11 authorizing the issuance of the conduit Tax-Exempt Fixed Rate Obligations in an amount not to exceed \$49,990,000 for the benefit of Pueblo Serra Worship Holdings.

BACKGROUND AND HISTORY

Pueblo Serra Worship Holdings (“Borrower” or “PSWH”) is a California non-profit religious corporation founded in 2002 and is a subsidiary of St. Junipero Serra Catholic High School (“JSerra”). JSerra was formerly known as JSerra Catholic High School. JSerra is a California non-profit religious corporation founded in February 2000. PSWH owns the land of the North Campus facilities and leases the land of the South Campus facilities under a long-term (originally 99-year) ground lease from the Buchheim Company. JSerra leases its North and South Campuses from PSWH for the operation of the high school.

Accreditation & Curriculum

JSerra is a private Roman Catholic high school, recognized and approved by the Diocese of Orange, and accredited by the Western Association of Schools and Colleges and the Western Catholic Education Association. JSerra offers college preparatory curriculum combined with teachings of the Roman Catholic doctrine, while it is open to students of different faiths. JSerra’s curriculum meets the minimum requirements to ensure that its students meet the admission requirements of both the University of California and the California State University systems.

Enrollment

JSerra began its activities with about 160 freshman and sophomore students on September 3, 2003. JSerra currently enrolls approximately 1,185 students in grades 9th through 12th. JSerra offers financial aid to qualified families, in addition to scholarships based on academic achievement, leadership, community service, and commitment to the arts.

Location

JSerra is located adjacent to Interstate 5 in San Juan Capistrano, with convenient access via freeway to North Orange County and North San Diego County. JSerra has two campuses: the North Campus, the site of JSerra’s 64 classrooms, library/media center, bookstore, chapel; and the South Campus, the site of JSerra’s athletic complex that includes the Pavilion, Aquatics Center, Fields, Track and Field Facilities, Baseball and Softball Fields, Tennis Center, Sand Volleyball Courts, Training Center and Golf Course.

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

Current leadership information is available in Appendix A.

PROJECT DESCRIPTION

PSWH will use the proceeds of the Obligations to:

- 1) Refinance the outstanding Prior Obligations of approximately \$46 million. The proceeds of the Prior Obligations were used to finance and refinance the cost of construction of the Borrower’s school facilities. All construction projects financed with the Prior Obligations have been completed;
- 2) Finance additional eligible upgrades and improvements to the North Campus and athletic facilities located on the South Campus in the amount of \$3.6 million; and:
- 3) Pay Costs of Issuance of \$250,000.

PSWH owns the land and the classroom and administrative facilities of the North Campus. PSWH ground-leases the South Campus land and owns the South Campus athletic facilities.

PSWH leases both land and facilities of the North Campus and the South Campus to JSerra. The North Campus and the South Campus are located at 26300, 26311 26331 26351 and 26353 Junipero Serra Road, San Juan Capistrano, California.

Outstanding Prior Obligations Structure as of 6/30/2018

Prior Obligations	Par Amount	Outstanding Balance	Interest Rate	Final Maturity	Trustee	Purpose
Series 2013A, 2013B, and 2013C	\$55,130,000	\$45,916,036.17	Variable	12/1/2040	Wells Fargo	Refunding Series 2009A, 2009B and 2009C Bonds used to pay construction costs of the JSerra facilities.
Series 2015A	\$215,000	\$188,234.77	Variable	12/1/2040	Wells Fargo	Paying Costs of Issuance due to restructuring Series 2013A, 2013B and 2013C.
Total		\$46,104,270.94				

No religious facilities were financed with the Prior Obligations and none will be financed with the new money component of this financing. Costs related to the chapel, religion classrooms and school-wide assemblies that include religious worship have been excluded from the financing.

See Appendix B--Project Photos.

ELIGIBILITY FOR FINANCING BY A STATE AGENCY

As noted earlier, both the Borrower and JSerra are California non-profit religious corporations. In connection with the issuance of the Obligations, Kutak Rock LLP (Bond Counsel) was asked to provide a memorandum to IBank confirming that issuance of the Obligations would not violate certain constitutional prohibitions against the State funding facilities for sectarian purposes and against the “establishment of religion” (Constitutional Prohibitions). Under California and federal constitutional law, **so long as** certain conditions are met, the use of proceeds of obligations (such as the Obligations) issued by a public entity (such as IBank) for the benefit of a religious institution (such as the Borrower or JSerra) 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.4th 788 and 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 JSerra documents and its analysis of the Applicable Law, Bond Counsel concluded that the issuance of the Obligations for the benefit of the Borrower and JSerra meet the conditions of Applicable Law.

FINANCING STRUCTURE

IBank Term Sheet Pueblo Serra Worship Holdings Date: August 28, 2018

Par Amount:	Not to exceed \$49,990,000; in conduit Tax-Exempt Obligations
Type of Offering:	Private Placement
Private Purchaser:	Farmers and Merchants Bank of Long Beach
Credit Enhancement:	No Credit Enhancement
Expected Credit Rating:	No Credit Rating expected
Interest*:	Fixed at 4.50% for a period of 10 years, and thereafter resetting pursuant to the terms of the Loan Agreement
Collateral:	First Deed of Trust, Security Agreement, and UCC-1 filing
Guaranty:	St. Junipero Serra Catholic High School
Expected Closing Date*:	September 4, 2018
Conduit Transaction:	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 and Closing Date are subject to change.

Financing Structure

The Obligations would be special obligations of IBank payable solely from amounts paid by the Borrower, and placed directly with Farmers and Merchants Bank of Long Beach (Lender).

The proceeds of the Obligations will be loaned to the Borrower pursuant to a Loan Agreement. The Obligations will be secured by a blanket lien on all of the Borrower's personal property assets and a first position Deed of Trust on the Borrower's interest in the Project.

The Obligations will have fixed interest rate of 4.50% for the period of 10 years and thereafter resetting pursuant to the terms of the Loan Agreement.

The Obligations are subject to certain transfer restrictions set forth in the Loan Agreement. The Obligations may only be transferred in whole, and not in part, by the Lender, upon 30 days' prior written notice to IBank and PSWH, to an affiliate of the Lender, or a Qualified Institutional Buyer upon delivery of a letter of representation, and in compliance with Loan Agreement's requirements.

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

JSerra continues to contribute to community, support cultural events, and assist students with financial aid and scholarships. The following are some of JSerra's public benefits:

- **Education:** JSerra provides high school level and comprehensive college preparatory education in South Orange County. JSerra is an inclusive institution and accepts students of all religions, encourages parents' involvement and has provided its students with over \$8 million in financial aid and scholarships since its inception.
- **Community:** JSerra entered into a Joint Facilities Use Agreement with the City of San Juan Capistrano in June 6, 2006, to provide community use of athletic facilities, including soccer, softball and baseball fields, tennis courts, outdoor restrooms, and parking lots to conduct community recreation and sports programs.

Students at JSerra are required to complete 80 hours of public service for the community. Some examples of community service include an annual Christmas party that provides food and gifts for children, public service at assisted living and children's hospital.

- **Sports:** Several community sport events for children are held at JSerra, including summer camps, tennis clinics, and Special Olympic swimming competitions.
- **Cultural Events:** The San Juan Capistrano Community Mariachi Program uses the JSerra facilities free of charge. The program is for children ages 6 and up and teaches traditional mariachi instruments and music to over 100 students.
- **Juaneno Indian Tribe:** JSerra has been expanding a cultural connection with this tribe since the JSerra campus and surrounding area is their ancestral home. A monument has been built on campus where each year cultural events are held in honor of the Juaneno.

Refunding will result in: (1) issuance of the Obligations with fixed rate of interest for 10 years, which will result in significant annual savings of approximately \$1.3 million in addition to providing interest rate security by converting from a variable rate to a fixed rate; (2) releasing the existing guaranties on JSerra's Prior Obligations; and (3) amendment of the documents for more flexible covenants. The annual savings will allow JSerra to further its mission of offering an affordable parochial education in south Orange County, and continue to offer community recreation and sports program, cultural events, financial aid and scholarships to its students.

The additional proceeds of \$3.6 million will be used to finance improvements to JSerra's facilities, including updates and improvements to classroom and laboratory facilities on the North Campus, and improvements to athletic facilities on the South Campus. These improvements will allow students and the public to enjoy and benefit from the campus expansion and on-going capital improvements.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES Describe: Project improvements will not require any local land use or zoning approvals, and the Borrower intends to obtain building permits in the due course of construction. All construction financed with the refinanced bonds have been completed.
TEFRA	
Date of TEFRA Notice	8/06/2018
Date of TEFRA Hearing	8/20/2018
Publications	The Daily Recorder The Orange County Register
Oral/Written Comments	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Does Applicant meet all of the IBank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. Borrower is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by Borrower 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. 4. The proposed financing is appropriate for the Project.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of the Resolution No. 18-11 authorizing the issuance of the conduit Tax-Exempt Fixed Rate Obligations in an amount not to exceed \$49,990,000 for the benefit of Pueblo Serra Worship Holdings.

APPENDIX A GOVERNANCE AND MANAGEMENT

PUEBLO SERRA WORSHIP HOLDINGS	
BOARD OF DIRECTORS	
Timothy R. Busch CEO The Busch Firm Laguna Hills, CA	Chairman of the Board
Thomas H. Parr CEO, Advanced Research Labs Jackson, WY	Member
Steve Cameron CEO Foremost Communities San Juan Capistrano, CA	Member
Richard T. Meyer Headmaster St. Junipero Serra Catholic High School San Juan Capistrano, CA	Member
EXECUTIVE OFFICERS	
Timothy R. Busch	President
Richard T. Meyer	Secretary
Matthew Pagano	Chief Financial Officer

ST. JUNIPERO SERRA CATHOLIC HIGH SCHOOL	
BOARD OF DIRECTORS	
Steve Cameron CEO Foremost Communities San Juan Capistrano, CA	Chairman
Tim Ristoff CEO & Sr. Managing Director Trivista Business Group, Inc. Laguna Niguel, CA	Vice Chairman
Timothy R. Busch CEO The Busch Firm Laguna Hills, CA	Member
JC Abusaid President and COO Halbert Hargrove Aliso Viejo, CA	Member
Fr. Reynold Furrell Pastor Holy Trinity Catholic Church Ladera Ranch, CA	Member
Richard T. Meyer Headmaster St. Junipero Serra Catholic High School San Juan Capistrano, CA	Member
Paul Brady Managing Director The Carlyle Group	Member

Jay Cunningham Principal/Analyst Aristotle Capital Management Laguna Niguel, CA	Member
Jana Day N/A	Member
Anthony Dufault AVP, Variable Funds Development Pacific Life Ladera Ranch, CA	Member
Tony Guinane Sr. VP, Investments UBS Financial Services Ladera Ranch, CA	Member
Alex Hayden Executive VP CBRE San Juan Capistrano, CA	Member
Msgr. Michael McKiernan Rector/Pastor Mission Basilica San Juan Capistrano, CA	Member
Niloofar Fakhimi Owner/VP Planet Beauty Newport Coast, CA	Member
John Rydell President Networkx Online, Inc. Ladera Ranch, CA	Member
Christy Hill N/A Laguna Niguel, CA	Member
Matt Heslin President Helsin Holdings, Inc.	Member
Reed McMackin VP Pan-Pacific Mechanical Laguna Beach, CA	Member
Yogesh Parmar Innovent, Inc. Newport Beach, CA	Member
Thomas H. Parr CEO/Trustee Advanced Research Labs Jackson, Wyoming	Member
John Porrello CEO Priority Workforce San Clemente, CA	Member
Tony Roberts Laguna Hills, CA	Member

Peter Szyman Real Estate Investor Laguna Niguel, CA	Member
---	--------

EXECUTIVE OFFICERS	
Richard T. Meyer	CEO/President
John Rydell	Secretary
Matthew Pagano	Chief Financial Officer

APPENDIX B PROJECT PHOTOS



