

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

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	The Bay School of San Francisco (School or Borrower)	<b>Amount Requested:</b>	Not to exceed \$6,500,000
<b>Applicant Description:</b>	A California non-profit public benefit corporation operating a coeducational, college preparatory independent high school in the Presidio.		
<b>Type of Issue:</b>	Refunding		
<b>Previous Debt to be Refunded:</b>	Taxable Loan (Bank of America)		
<b>Project(s):</b>	Refinance a taxable loan provided by Bank of America, the proceeds of which were used to finance the costs of construction, renovation, improvement and equipping of the School's campus.		
<b>Project Address(s):</b>	35 Keyes Avenue, San Francisco, California 94129 (Prior Project)		
<b>Plan of Finance:</b>	The I-Bank will issue tax-exempt limited obligations (Tax-Exempt Obligations) and the proceeds will be used to refinance the costs of the Prior Project and pay costs of issuance of the Tax-Exempt Obligations.		
<b>Type of Issue:</b>	Privately placed limited obligations with First Republic Bank, a Qualified Institutional Buyer (QIB).		
<b>Tax Status:</b>	Tax-exempt.		
<b>Term:</b>	30 years.		
<b>Enhancement:</b>	None.		
<b>Credit Rating:</b>	None; credit rating requirement waived; private placement with a QIB exception is applicable.		
<b>Est. Sources of Funds:</b>		<b>Est. Uses of Funds:</b>	
Tax-Exempt Loan Proceeds	\$6,500,000	Payoff Existing Loan	\$6,306,300
		Costs of Issuance	193,700
<b>TOTAL SOURCES</b>	<b>\$6,500,000</b>	<b>TOTAL USES</b>	<b>\$6,500,000</b>
<b>Financing Team</b>	<b>Private Placement Purchaser:</b> First Republic Bank <b>Lender's Counsel:</b> Hawkins Delafield & Wood LLP <b>Borrower's Counsel:</b> Folger Levin LLP		
<b>Public Benefits</b>	By refunding an existing taxable loan, the School estimates it will achieve approximately \$100,000 in debt service savings per year which will be used to provide additional funding for financial aid as well as educational support and resource programs for its students.		
<b>Date of Board Meeting:</b>	<b>Resolution Number:</b>	<b>Prepared by:</b>	
August 13, 2013	13-13	Tara Dunn	
<b>Staff Recommendation:</b>	Staff recommends approval of Resolution 13-13 authorizing the issuance of tax-exempt obligations in an amount not to exceed \$6,500,000 to be sold through private placement and loaning the proceeds to The Bay School of San Francisco.		

## BACKGROUND AND HISTORY

The Bay School of San Francisco (School or Borrower), a qualified 501(c)(3) non-profit public benefit corporation, is an independent secondary school located in the Presidio of San Francisco, California. Founded in 2004, the School's mission is to provide a quality education to students in grades 9 through 12.

### Enrollment and Tuition

Since 2004, the School has grown from 53 to an enrollment of 320 students in grades nine through twelve. The 2013/2014 school year tuition is \$39,000. Students come from more than 73 middle schools, 65 percent from private/independent schools, 17 percent from public schools and 18 percent from parochial schools.

### Curriculum & Accreditation

The School offers a comprehensive college preparatory curriculum. The School strives to balance challenging academics and innovative thinking with a mindful approach to learning and life. The School is accredited by the Western Association of Schools and Colleges and is a member of each of the following entities: the National Association of Independent Schools, the Council for Advancement and Support of Education (CASE), the National Association of College Admission Counselors, the Secondary School Admission Test Board, and the College Board.

### Community Involvement

The School fosters a culture of ethics in which students can develop and clarify their own convictions and help them move beyond an understanding of themselves and toward an appreciation of their roles in a broader community.

### Financial Aid

The School offers financial assistance to more than 30 percent of the student body. Since inception, the School has provided over \$10 million in financial aid to the student body with over \$2.5 million expected to be awarded for the 2013/2014 school year.

A list of the School's Officers and Board Members are provided in Attachment A – Governance and Management.

### Prior Project

In 2004, the School began a year-long restoration designed to transform a historic building into a state-of-the-art facility. The restoration included costs of construction, renovation, improvement and equipping of the School's facilities, located at 35 Keyes Avenue in the Presidio (Prior Project) (see Attachment B - Photos). The Prior Project was completed in 2005.

Built in 1912 for original use as army barracks, Building 35 is a 62,000 square-foot building that has been designated as a national historic landmark. The campus also includes community spaces, such as the 3,000 square-foot Fulbright Library and the 4,500 square-foot student commons, called the Great Room, a full-size catering kitchen provides organic meals that are cooked on-site and shared by all members of the school community in the spacious 2,000 square-foot dining room. In an outdoor courtyard adjacent to the Great Room, students eat together, socialize, and play informal games of basketball and ping-pong.

There are 23 classrooms located on the second and third floors of the building, intentionally interspersed with faculty offices to encourage close relationships between students and

teachers. Three state-of-the-art science laboratory classrooms are located at the north and south ends of the upper two floors for physics, chemistry, and biology. On the third floor, the Digital Media Lab is situated directly across from the art studio to facilitate interaction between the two programs. The school's music, drama and dance programs are located on the basement level, which includes large classroom spaces for drama classes and rehearsals, choral and orchestral instruction as well as instrumental practice rooms.

Prior Project Cost			
Sources		Uses	
Private Investors/35 Keyes LLC*	\$8,500,000	Building 35 Renovation	\$12,000,000
Bank of America Loan	6,500,000	Equipping School's Facilities	3,000,000
<b>Total \$15,000,000</b>		<b>Total \$15,000,000</b>	

\*Includes historic tax credit dollars

### The Presidio Trust

The School's campus is owned by The Presidio Trust, a wholly-owned corporation of the United States of America. Founded in 1776 as a Spanish government outpost at the tip of the San Francisco peninsula, the Presidio served as a military base until 1994 when it passed from U.S. Army ownership to the National Park Service and became part of the Golden Gate National Recreation Area. The Presidio is a special public/private government agency formed between the National Park Service and The Presidio Trust, which is charged with rehabilitating, maintaining and managing the historic buildings in the Presidio and the surrounding area. Any alteration of the School's campus is carefully monitored by the Presidio Trust and is subject to review by members of the Presidio Trust staff.

The School has leasehold title to its campus through a chain of subleases with other entities related to the School that lease the campus from The Presidio Trust. Upon refinancing of the existing loan, the master lease from The Presidio Trust will be assigned to the School, and the School will have a direct lease from The Presidio Trust. The master lease expires in 2044 with two 10 year extensions at the option of the School

## PLAN OF FINANCE

The School requests approval for issuance of tax-exempt limited obligations (Tax-Exempt Obligations) in an amount not to exceed \$6,500,000 to refinance an existing taxable loan provided by Bank of America and pay for costs of issuance of the Tax-Exempt Obligations.

Proceeds of the taxable loan were used to finance a portion of the Prior Project described above.

The purpose of the refunding is to reduce the interest rate cost to the School and increase the School's cashflow by restructuring the loan amortization schedule to a 30 year term.

Existing Taxable Loan			Proposed Tax-Exempt Obligations		
Principal Amount	Fixed Interest Rate	Maturity	Principal Amount	Expected Fixed Interest Rate	Maturity
\$6,306,300	7.75%	2016	\$6,500,000	4.00%	2043
			Includes estimated costs of issuance of \$193,700		

The Tax-Exempt Obligations are to be sold in a private placement with First Republic Bank and the proceeds will then be loaned to the School pursuant to a master loan agreement among the I-Bank, the School, and First Republic Bank (Loan Agreement). The Loan Agreement will have a stated term of 30 years with an expected fixed interest rate of 4 percent.

The principal and interest due under the Tax-Exempt Obligations shall be paid from the School's operating revenues (excluding revenues required to pay fees and expenses in connection with the Tax-Exempt Obligations, as permitted in the Loan Agreement) to be received by the I-Bank from the School. No I-Bank or other State funds will be used or are required for repayment of the Tax Exempt Obligations.

The School's obligation to repay First Republic Bank for the proceeds of the Tax-Exempt Obligations is expected to be secured by collateral including, but not limited to, the School's operating revenues, a leasehold deed of trust on the School's campus facility and other assets owned by the School. As part of the financing, the I-Bank will assign all rights to the aforementioned collateral, as well as all enforcement obligations related thereto to First Republic Bank. The School will be required to comply with standard financial covenants, including the maintenance of a minimum debt service coverage ratio and other standard conditions, covenants and default provisions customary in similar tax-exempt limited obligations transactions .

In no event shall the Tax-Exempt Obligations be deemed to constitute a debt or liability or obligation of the State or any political subdivision thereof, except as limited obligations of the I-Bank, or a pledge of the faith and credit or taxing power of the State or any political subdivision thereof, but shall be a limited obligation of the I-Bank payable solely from payments made by the School under the Loan Agreement.

It is the I-Bank's general policy is to issue bonds and similar obligations bearing certain minimum ratings. However, I-Bank policies provide that the I-Bank may waive the requirement for a credit rating where the applicant will use a private placement or limited underwriting offering structure and the financing meets the following additional conditions:

1. **Sophisticated Investor.** The investor(s) will be required to sign a "sophisticated investor" letter acceptable to the I-Bank. Each investor must be a qualified institutional buyer within the meaning of S.E.C. Rule 144A, or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the I-Bank.
2. **Resale Limitations.** Depending on the circumstances of the proposed sale, the I-Bank may require conditions for the resale of the obligations after initial issuance.

3. **Minimum Denomination.** The I-Bank will require a minimum bond denomination of at least \$100,000 on private placements or limited underwritten offerings; denominations may be higher depending on the circumstances of the sale.

First Republic Bank, a financial institution licensed under the California Department of Business Oversight, is a qualified institutional buyer as defined in Section 144(A) promulgated under the Securities Act of 1933, as amended. Further, the Loan Agreement will contain representation and covenants by First Republic Bank that meet the aforementioned Resale Limitations and Minimum Denomination requirements. Thus, I-Bank staff has concluded that the issuance of the Tax Exempt Obligations meets the requirements for private placement and, thus will seek I-Bank Board approval of a “waiver” of the generally applicable rating requirements.

The Tax-Exempt Obligations will only be offered to and purchased by First Republic Bank, and thus constitute a private placement. In order to meet the I-Bank’s requirements for private placements, First Republic Bank must provide a sophisticated investor letter (Letter) at closing certifying, among other things, that: (i) it is a qualified institutional buyer, (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Tax-Exempt Obligations and that it is able to bear the economic risks of such investment; and (iii) it agrees to comply with the provisions in the Loan Agreement that prohibit the sale of First Republic Bank’s interest in the Tax-Exempt Obligations except to another qualified institutional buyer or an “accredited investor” within the meaning of Rule 501 promulgated under the Securities Act, as well as provisions that impose minimum denomination requirements.

**PUBLIC BENEFITS**

By refunding an existing taxable loan, the School estimates it will achieve approximately \$100,000 in debt service savings per year which will be used to provide additional funding for financial aid as well as educational support and resource programs for its students.



**ATTACHMENT A - GOVERNANCE AND MANAGEMENT**

<b>OFFICERS AND BOARD OF TRUSTEES</b>	
Kathleen Patterson	President
Cynthia Bengier	Vice President
Greg Wettersten	Treasurer
Robert Kleiner	Secretary
Bruce Armstrong	Trustee
Scott Clifford	Trustee
Sandy Drew	Trustee
Cary Fulbright	Trustee
Lorelei Greenfield	Trustee
John Hafernik	Trustee
Robert Hobart	Trustee
James Joaquin	Trustee
Shyam Lal	Trustee
Therese M. Lawless	Trustee
Max Ruston	Trustee
James Sano	Trustee
Demi Seguritan	Trustee
Brian Thomas	Trustee
Amy Talbot	Parent Guardian Association, Ex Officio Trustee Chair
Timothy W. Johnson	Head of School, Ex Officio

**ATTACHMENT B - Photos**



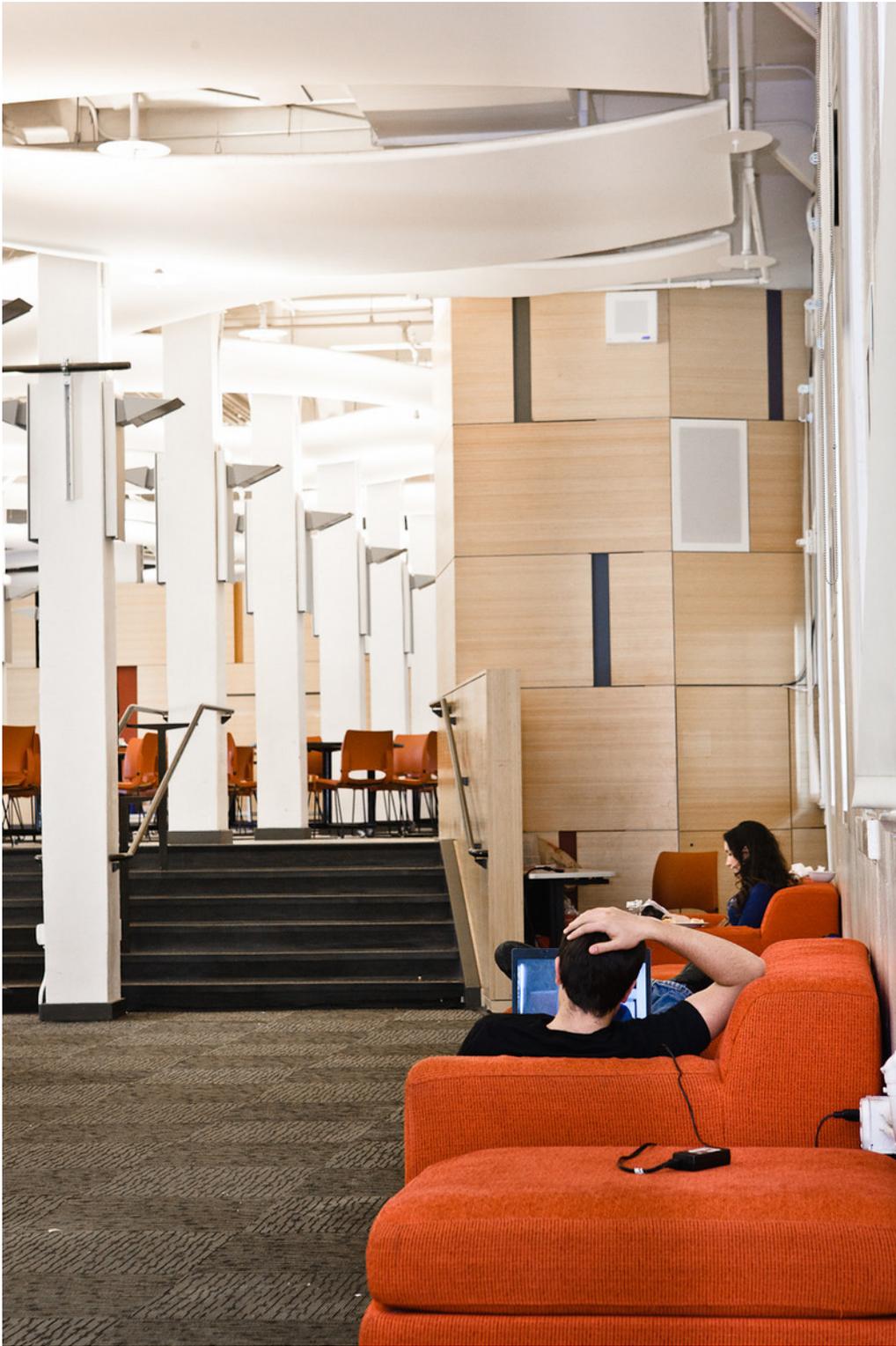
**Bay School of San Francisco - Building 35**



**Fulbright Library**



**Lunch in the Great Room**



**Great Room**