

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

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Marlborough School (Marlborough)	<b>Amount Requested:</b>	Not to exceed \$29,500,000
<b>Applicant Description:</b>	A California nonprofit public benefit corporation founded in 1889 which operates an independent urban day school for young women, grades 7 through 12. Located in the Hancock Park area of Los Angeles, Marlborough is committed to delivering a superior college preparatory education in an environment instilled with high ethical values to a diverse group of students.		
<b>Type of Financing:</b>	Tax-exempt obligation		
<b>Project Description:</b>	The project (Project), also known as the "Arden Project", involves the construction of a state-of-the art aquatic center, demolition of single family residences, expansion of a parking lot, construction of a security kiosk, expansion of an existing outdoor athletic field and the modernization of miscellaneous related construction projects.		
<b>Project Site:</b>	250 South Rossmore Ave., Los Angeles, CA 90004 (Los Angeles County)		
<b>Plan of Finance:</b>	The I-Bank will issue up to \$29.5 million in tax-exempt obligations in a private placement with First Republic Bank (the "Tax-Exempt Obligations"). The proceeds of the Tax-Exempt Obligations will be used to (1) refund obligations issued by the I-Bank pursuant to that certain Master Loan Agreement, dated as of June 1, 2008 and amended as of June 1, 2009 and amended again as of January 25, 2012 in the aggregate principal amount of approximately \$11 million (the "Prior Master Loan Agreement"), (2) provide up to \$5 million of long-term financing for the Project, (3) provide up to \$13 million in "bridge" financing for the Project and (4) funds costs of issuance up to \$500,000.		
<b>Type of Issue:</b>	Privately-placed fixed-rate securities with First Republic Bank		
<b>Tax Status:</b>	Tax-exempt obligation		
<b>Term:</b>	30 year long term financing and 15 year bridge financing		
<b>Credit Enhancement:</b>	None		
<b>Credit Rating:</b>	Unrated		
<b>Fees:</b>	App Fee \$1,500; Issuance Fee \$42,250; Annual Fee \$500 per year		
<b>Est. Sources of Funds:</b>		<b>Est. Uses of Funds:</b>	
Tax-Exempt Obligation Proceeds	\$29,500,000	Refund Existing Loan	\$11,000,000
		S/T Bridge Funds	\$13,000,000
		L/T Funds	5,000,000
		Costs of Issuance	500,000
<b>TOTAL SOURCES</b>	<b>\$29,500,000</b>	<b>TOTAL USES</b>	<b>\$29,500,000</b>
<b>Financing Team:</b>	<b>Bond Counsel:</b> Kutak Rock <b>School Counsel:</b> Squire Sanders <b>Financial Advisor:</b> George K Baum & Company <b>Purchaser:</b> First Republic Bank		
<b>Public Benefits:</b>	The financing will provide low-cost funds for the construction and improvements to the campus which include a new aquatic center, expansion of parking lot, security, expansion of outdoor athletic field, new walls and landscaping. The Project will help to serve the 544 currently enrolled students, and the state of the art facilities will serve its 32 athletic teams.		
<b>Date of Board Meeting:</b> March 25, 2014	<b>Resolution Number:</b> 14-02	<b>Prepared by:</b> John Belmont	
<b>Staff Recommendation:</b> Staff recommends approval of Resolution 14-02 authorizing the issuance of Tax-Exempt Obligations for an aggregate amount not to exceed \$29,500,000 for the benefit of Marlborough School.			

## BACKGROUND AND HISTORY

Marlborough School (Marlborough), founded in 1889, is a California nonprofit public benefit corporation that operates an independent urban day school serving a diverse group of young women, grades 7 through 12, located in the Hancock Park area of Los Angeles.

Marlborough is committed to delivering a superior college preparatory education in an environment imbued with high ethical values to a diverse group of students. Originally established in Pasadena in 1889 as St. Margaret's School for Girls, Marlborough moved to Los Angeles in 1890, and adopted the name of its new location at the corner of Third Street and Marlborough Avenue.

Marlborough is considered one of the foremost college-preparatory schools in Los Angeles. Marlborough has a \$33.7 million endowment, which is the largest endowment per student among independent schools in Southern California. Recently, the Leadership in Learning Campaign has doubled the size of the Marlborough campus and has added Munger Hall, including a state of the art Academic Resource Center, visual arts center, and the Seaver Art Gallery.

Marlborough currently has an enrollment of 544 students with 18% receiving financial aid and an average grant size of \$20,389. The faculty consists of 54 full time staff and 24 part time staff. The tuition for 2013-2014 year is \$33,785. Student body is comprised of young women from the greater Los Angeles area. Students of color represent nearly 37.5% of the student body. Marlborough's 4,300 alumnae are well represented in business, education, law, medicine, government, and service to family and community, both locally and globally.

In the 1960s, Marlborough became a non-profit organization, governed by a Board of Trustees that began to plan for Marlborough's long-term future. During this time, a fledging endowment was formed and the campus was completely rebuilt to meet the needs of the growing student body.

Marlborough provides a learning environment where young women develop self-confidence, creativity, a sense of responsibility, and moral decisiveness. The educational program encourages students to discover their potential, to think critically, and to develop intellectual curiosity. Students learn to set priorities, develop decision-making skills, and value the process of the educational experience. Marlborough emphasizes the process of personal growth, encourage cooperation, and foster close association among members of the community to promote emotional, intellectual, and physical well-being.

Beyond the college preparatory curriculum, 32 athletic teams, and state-of-the-art facilities is the heart of Marlborough: the families, employees, alumnae, and friends truly embody the Marlborough Core Values of Community, Excellence, Confidence, and Honor. Marlborough is fully accredited by the Western Association of Schools and Colleges and California Association of Independent Schools.

Current Marlborough leadership is listed in Appendix A.

## PROJECT DESCRIPTION

Proceeds of the Tax-Exempt Obligations will be used to pay the cost or reimburse the cost of the construction of a state-of-the art aquatic center, demolition of single family residences owned by the school, expansion of a parking lot, construction of a security kiosk, expansion of the existing outdoor athletic field and construction of miscellaneous related improvements that include new walls and landscaping (Project), and payment of issuance costs (see Appendix B--Project Diagram).

The Project, also known as the "Arden Project", consists of a Conditional Use Permit (CUP) approved by the City of Los Angeles in 1999 for phased improvements to Marlborough for various athletic and parking facilities, including new tennis courts, pool, and expansion of an outdoor athletic field. The Project has been partially completed, and Marlborough proposes to complete certain remaining improvements granted in the vested CUP.

The new aquatic facility will encapsulate an approximately 10,100 square foot building which will include approximately 8,500 square feet of usable space beneath the pool deck to be used for aquatic and athletic purposes, including but not limited to strength, training and conditioning facilities, restrooms, and storage of pool equipment and related items. The above grade portion of the new aquatic facility would feature four rows of bleacher seating. The structure would also serve as a sound attenuation wall to minimize noise.

Marlborough plans to demolish two single family residences it owns located at the southeast corner of the site in order to expand its existing surface parking lot, construct a new garden area immediately north of the expanded surface parking lot, and construct a new security kiosk near its primary vehicle entrance.

Finally, the Project will expand the existing outdoor athletic field to regulation size and construct miscellaneous related improvements that include new walls and landscaping around the perimeter of the campus.

The anticipated start of construction is June 2015 with an estimated completion date of Fall 2016.

## FINANCING STRUCTURE

If the I-Bank Board grants its final approval of the issuance of Tax-Exempt Obligations for an aggregate amount not to exceed \$29,500,000 for the benefit of Marlborough School, the I-Bank will issue the Tax-Exempt Obligations in a private placement to First Republic Bank (Lender), a Qualified Institutional Buyer (QIB) as defined in Section 144(A) of the Securities Act of 1933 (Act), as amended. Thereafter, the I-Bank will loan the proceeds from the Tax-Exempt Obligations to Marlborough (Loan).

The proceeds from the Tax-Exempt Obligations will be used to:

- Series A - Refund tax-exempt obligations issued by the I-Bank pursuant to the Prior Master Loan Agreement in the aggregate principal amount of approximately \$11 million
- Series B - Provide up to \$5 million of long-term financing for the Arden Project
- Series C - Provide up to \$13 million in “bridge” financing for the Arden Project
- Fund costs of issuance of up to \$500,000

Marlborough seeks \$13 million in short-term “bridge” financing and \$16.5 million in long-term financing. Marlborough expects to repay the “bridge” financing with capital campaign contributions as they are received; and expects to draw down the proceeds of the Tax-Exempt Obligations over a period of up to three years.

Marlborough’s obligation to repay Lender for the proceeds of the Tax-Exempt Obligations is expected to be secured by collateral including, but not limited to, Marlborough’s personal property assets and a negative pledge on certain real property. As part of the financing, the I-Bank will assign all rights to the collateral to the Lender. Furthermore, the I-Bank will assign its right to receive the loan payments from Marlborough, except for certain Reserved Issuer Rights, to the Lender pursuant to a master loan agreement between the I-Bank, Marlborough and the Lender (Loan Agreement). Repayment of the Tax-Exempt Obligations will be made solely from revenues to be received by the Lender (as assignee of the I-Bank) from Marlborough’s payments under the Loan.

The Lender will sign a Sophisticated Investor Letter (Investor Letter) at closing certifying, among other things, that (i) it is a QIB, as defined in Rule 144(A) under the Act; (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 Loan and that it is able to bear the economic risks of such investment; and (iii) it will prohibit the resale of the Loan, except to another QIB signing an Investor Letter.

In no event shall the Loan constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Tax-Exempt Obligations. The Tax-Exempt Obligations shall constitute a special limited obligation of the I-Bank. The Tax-Exempt Obligations shall be payable solely from revenues or other sources of payment made by Marlborough under the Loan Agreement.

The Lender’s commitment is subject to 1) approval of the Lender’s Executive Loan Committee, 2) the documentation of covenants, terms and conditions satisfactory to the Lender and its counsel, 3) the absence of any material adverse change in the condition, operations or prospects (financing or otherwise) of Marlborough between the date of commitment and the date of closing of the proposed transaction, and 4) the completion of due diligence by the Lender indicating no state of affairs or circumstance relating to Marlborough or the proposed transaction are unacceptable to the Bank in its sole discretion.

### **Financial Covenants Summary:**

Marlborough may be required by the Lender to comply with the following financial covenants:

A. The Borrower shall maintain unencumbered Liquid Assets in an amount not less than \$8,000,000, verified annually at each June 30, commencing June 30, 2014.

B. Borrower shall maintain a Debt Service Coverage Ratio of not less than 1.25:1.00 measured annually based on the audited financial statements of Borrower as of the end of each fiscal year, commencing the fiscal year ended June 30, 2014.

C. Permitted Indebtedness. A minimum one year historic *pro-forma* Debt Service Coverage Ratio of 1.35:1 including additional indebtedness and a minimum liquidity to debt ratio of .40:1.

The financing will include refunding the tax-exempt obligations issued by the I-Bank pursuant to the Prior Master Loan Agreement. The refunding of the outstanding Tax-Exempt Obligations will mitigate the risk associated with the current rate structure. The amount currently outstanding as of June 30, 2013 is \$10,836,100. The original project is complete. In addition, Marlborough has raised over \$9.6 million in annual, capital, and endowment gifts in 2012-2013. 99% of parents, 100% of employees and trustees, and 34% of alumnae support the Marlborough Annual Fund.

## **PUBLIC BENEFITS**

The Project will provide the following public benefits:

- Aquatic Center – The new facility will support swim and water polo teams which include six teams. It will also improve Summer School program including recreational swimming and water life safety training supporting 500 children from the surrounding neighborhoods.
- Athletic Field – The new field will be approximately 330 feet long by 145 feet wide, and support soccer, lacrosse, and softball. There are eight teams across all three sports hosting 20 matches per year. The field will also be used for graduation ceremonies and other community events, as well as help strengthen the Summer School program in sport-related activities.
- Total of 32 athletic teams will benefit from the new aquatic center and athletic field.
- Additional parking will add 25 new parking spaces.
- The security kiosk is needed to monitor traffic in and out of campus and maintain security and safety measures.
- Anticipate adding one or two new coaching positions.
- Anticipate adding additional maintenance personnel.

## OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> <b>NO</b> <input checked="" type="checkbox"/> <b>YES, Describe:</b> All approvals have been obtained.
TEFRA	
Date of TEFRA	March 24, 2014
Publications	<i>The Sacramento Bee</i> <i>Los Angeles Daily Journal</i>
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	
Applicant meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b>	<ol style="list-style-type: none"> <li>1. Project is in the State of California.</li> <li>2. Marlborough is capable of meeting the obligations incurred under relevant agreements.</li> <li>3. Payments to be made by Marlborough to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments.</li> <li>4. The proposed financing is appropriate for the Project.</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 recommends approval of Resolution 14-02, for an amount not to exceed \$29,500,000 for Marlborough based on the Lender's commitment to fund the Project.

## APPENDIX A – GOVERNANCE AND MANAGEMENT

### MARLBOROUGH SCHOOL BOARD OF TRUSTEES

The Hon. Christine C. Ewell President	Palmer N. Murray Vice President	Peter Shoemaker Treasurer
Judy Belk	David Kaplan	Helen Lho Ryu
Maria Arena Bell	Kenneth Karmin	Dana Slatkin
William James Ellison	Lydia H. Kennard	Katherine Marik Thompson Vice President
Laura Horton Furey	Jennifer Cook Lewis	Debra Yang
Michael Gendler Secretary	R. A. McDonough	William H. Ahmanson
Cathleen Hession	Michael Parks	
Mari Snyder Johnson	Robert Ralphs	

### EX-OFFICIO MEMBERS

Jennie Kim	Parents' Association Co-President
Nancy Lurie	Parents' Association Co-President
Courtney Cummings Wolff	Alumnae Association President
Barbara E. Wagner	Head of School

### SENIOR ADMINISTRATIVE TEAM

Barbara E. Wagner	Head of School (Officer)
Robert Bryan	Director of Middle School
Nick Hernandez	Director of Finance and Operations (Officer)
Laura Hotchkiss	Assistant Head of School and Director of Upper School
Stuart Posin	Director of Academic and Administrative Technology
Lynn McCarthy	Acting Director of Development
Jeanette Woo Chitjian	Director of Admissions

APPENDIX B – PROJECT DIAGRAM





