

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

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	The Switzer Center, Inc. dba Switzer Learning Center (Switzer or Borrower)	<b>Amount Requested:</b>	Not to exceed \$2,700,000
<b>Applicant Description:</b>	The Borrower is a 501(c)(3) nonprofit public benefit corporation established to operate a nonpublic special education school, and provides a free and appropriate public education for special needs children with moderate to severe learning, social, emotional, behavioral, and autistic challenges.		
<b>Type of Financing:</b>	Tax-exempt obligations		
<b>Project Site:</b>	2201 Amapola Court, Torrance, CA 90501-1431		
<b>Plan of Finance:</b>	If approved by the Board, the IBank will issue up to \$2.7 million in fixed rate tax-exempt obligations that will be evidenced by a loan agreement between the IBank, Switzer and California United Bank (Tax-Exempt Obligations). The proceeds of the Tax-Exempt Obligations are expected to be used as follows: (1) refinance project located at 2201 Amapola Court, Torrance, California, including approximately 28,000 square feet of building space which contains a library, auditorium, classrooms, cafeteria and other ancillary educational facilities, and with Borrower cash and (2) pay costs of issuance.		
<b>Type of Issue:</b>	Bank Loan		
<b>Tax Status:</b>	Tax-Exempt		
<b>Term:</b>	25 years		
<b>Credit Enhancement:</b>	None		
<b>Credit Rating:</b>	Unrated		
<b>Fees:</b>	App Fee \$1,500; Issuance Fee \$6,750; Annual Fee \$500 per year		
<b>Est. Sources of Funds:</b>		<b>Est. Uses of Funds:</b>	
Tax-Exempt Obligation Proceeds	\$2,700,000	Refund Mortgage Loan	\$2,650,000
Funds by Switzer	\$50,000	Costs of Issuance	\$100,000
<b>TOTAL SOURCES</b>	<b>\$2,750,000</b>	<b>TOTAL USES</b>	<b>\$2,750,000</b>
<b>Financing Team:</b>	<b>Bond Counsel:</b> Kutak Rock LLP		
	<b>Borrower's Counsel:</b> Business Legal Partners, Attorneys at Law		
	<b>Financial Advisor:</b> Growth Capital Associates, Inc.		
	<b>Purchaser/Lender:</b> California United Bank		
<b>Public Benefits:</b>	Switzer contracts with public school districts to provide high quality special education by California credentialed teachers authorized to teach up to approximately 100 students with mild/moderate and moderate/severe disabling conditions. Currently Switzer employs approximately 25 licensed or credentialed professionals, 38 paraprofessionals, and nine (9) administrative and support staff. It is estimated that as the school's enrollment increases for each new class/group added, approximately 1.5 professionals and two (2) paraprofessionals will be employed.		
<b>Date of Board Meeting:</b>	<b>Resolution Number:</b>	<b>Prepared by:</b>	
June 24, 2014	14-07	John Belmont	
<b>Staff Recommendation:</b>	Staff recommends approval of Resolution 14-07 authorizing the issuance of Tax-Exempt Obligations in an amount not to exceed \$2,700,000 to be sold to California United Bank as a direct purchase transaction and loaning the proceeds of the sale of the Tax-Exempt Obligations to Switzer.		

## BACKGROUND AND HISTORY

The Switzer Center (Borrower or Switzer) is a nonpublic, coeducational, special education school located in Torrance, CA serving grades 3 to 12 (up to 22 years old). Switzer provides free and appropriate public education for special needs children with moderate to severe learning, social, emotional, behavioral, and autistic challenges.

Switzer was founded in 1966 as the South Bay Center for Educational Therapy (“South Bay”) and operated from a leased storefront in Hermosa Beach. South Bay offered an innovative educational therapy program to a small group of students with learning disabilities. Founder Dr. Janet Switzer’s after-school educational therapy program became a groundbreaking model for working with children with learning and emotional problems. In 1972, services were expanded to include a nonprofit, nonpublic, special education school, and the organization moved to Torrance. When Dr. Switzer retired in 1994, the new executive director Dr. Rebecca Foo expanded the services again to include a nonpublic agency and psychological services under the new name Switzer Learning Center. The move to the new campus in the fall of 2005 almost tripled Switzer’s space and allowed Switzer to increase its student population, services and programs and hire professional and administrative staff.

Switzer currently serves approximately 100 students with moderate to severe learning disabilities or emotional problems that limit their abilities to succeed academically and socially. Switzer’s students range from third grade to 22 years old and, because of their disabilities, have not been successful in a typical public school classroom environment where they struggle educationally, emotionally and behaviorally. Students are referred to Switzer from over a dozen school districts in the South Bay area and in most cases Switzer’s tuition and fees are paid by the “home” districts. The school districts refer these challenging students to Switzer knowing that they’ll receive the special professional attention they need to help them succeed as they transition to young adulthood.

In order to serve the needs of students with moderate to severe autism, the Spectrum Program began in 2006, and the Self Advocacy and Independent Living (SAIL) Transition Program was added in 2012. In an effort to provide after school mental health services for South Bay Families, Switzer Family Services Clinic was started in 2012.

Current Switzer leadership is listed in Appendix A.

## FINANCING STRUCTURE

If the IBank Board grants its approval of the issuance of Tax-Exempt Obligations for an aggregate amount not to exceed \$2,700,000 for the benefit of Switzer, the IBank will enter into a loan agreement between the IBank, Switzer and California United Bank (Lender), a Qualified Institutional Buyer (QIB) within the meaning of Section 144(A) of the Securities Act of 1933 (Securities Act), as amended. The IBank will loan the proceeds of the Tax-Exempt Obligations to the Lender and the proceeds will be lent to Switzer by the Lender (Loan).

The proceeds from the Tax-Exempt Obligations are expected be used as follows:

\$2,650,000 – Refinance an existing taxable mortgage loan that was provided by California United Bank.

\$100,000 – Transaction/Issuance Costs, including issuer, state, financing team, counsel for Switzer, bank costs and fees.

The Lender will sign a sophisticated investor letter (Investor Letter) at closing certifying, among other things, that (i) it is a QIB, within the meaning of Rule 144(A) of the Securities 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 subsequent sale, assignment or transfer of the Loan, except, in whole and not in part, 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 IBank. The Tax-Exempt Obligations shall be payable solely from payments made by Switzer under the Loan Agreement.

### **Financial Covenants Summary:**

Switzer agrees to maintain the following financial covenants during the term of the Loan:

- Minimum Debt Coverage of 1.20x.
- Minimum Unrestricted Net Assets of \$1,800,000 (actual as of 6/30/13 is approximately \$2,160,000).

## PUBLIC BENEFITS

Federal and state law mandates that a free and appropriate public education be available to all eligible children at no cost to parents. Special education eligibility and nonpublic school placement are determined by each child's Individual Educational Plan (IEP). Special education students are usually referred to Switzer from their home school district after their IEP team has determined that the public school no longer can meet the student's needs and that the student would benefit from a referral to a nonpublic school.

In some instances, parents elect to send their child to Switzer as a private pay student. In these instances, an evaluation and determination of need for services is conducted at Switzer and a private fee agreement is made. Students attending Switzer Learning Center come from about a dozen school districts in the South Bay area of Los Angeles County.

Switzer Learning Center is certified by the California Department of Education to provide special education and related services for students with the following IEP eligibility: Specific Learning Disability (SLD), Emotional Disturbance (ED), Other Health Impairment (OHI) such as ADD/ADHD, asthma, or other health issues, Speech and Language Impairment (SLI) and Autism (AUT) or Asperger's Disorder.

Switzer's current enrollment of about 100 students is approximately 20% African American, 28% Latino, 41% European American, and 11% Pacific Islander/Native or Asian American.

Switzer delivers its services through several programs, including:

1. **The Heritage Program** is for 3rd-12th grade students that have serious learning, social, emotional and behavioral disabilities that are so severe that they cannot be successful in a regular public school campus. Since about 20% of Heritage Program students live in foster care, group homes or kinship care, and another 46% live in below poverty level households, many are at high risk of becoming dropouts, incarcerated, or under- or unemployed. However, at Switzer they receive intensive individualized special education instruction, psychological counseling and guidance, language and speech development and remediation therapy, transportation, behavioral analysis and interventions, and psychological and educational assessments help students achieve academic, vocational and personal goals previously unattainable in other educational settings. In this supportive environment, instead of becoming a drain on publically funded programs, Heritage Program students are able to achieve academic success. Many students dual-enroll at public schools or Southern California Regional Occupational Center. Most students earn their high school diplomas, and 70% of graduates enroll in community college or vocational school with a \$1,000 scholarship to help them learn additional skills for successful employment.

2. **The Spectrum Program** for middle and high school students with autistic spectrum disorders uses an alternative curriculum that teaches functional skills and focuses on social, emotional, and relationship development using guided participation and weekly community-based learning activities. The Spectrum Program focuses on strengthening skills to compensate for the core deficits of autism and to foster creative problem solving.

3. **The Self-Advocacy and Independent Living (SAIL) Transition Program** supports young adults, ages 18-22, with autistic spectrum disorders as they build independence, living, and job skills to transition to life beyond high school. Basic job training begins with a specially designed on-campus work program and adds supported off campus job internships at local businesses as SAIL students develop and achieve learning and relationship success.

Switzer offers students a nurturing, therapeutic team of dedicated professionals, with extracurricular and enrichment activities, advanced technology, home/science and student kitchens, computer lab, arts and crafts studio, music production and editing studio, mechanical skills shop, occupational therapy room, and fitness gym to support students' development, learning and cultural awareness.

Currently Switzer Center employs approximately 25 licensed or credentialed professionals, 38 paraprofessionals, and nine (9) administrative and support staff. It is estimated that as the school's enrollment increases for each new class/group added, approximately 1.5 professionals and 2 paraprofessionals will be employed.

**OTHER PROJECT DATA**

<b>PERMITS AND APPROVAL</b>	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained.
<b>TEFRA</b>	
Date of TEFRA	June 10, 2014
Publications	<i>The Sacramento Bee</i> <i>Daily Breeze</i>
Oral/Written Comments	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
<b>LEGAL QUESTIONNAIRE</b>	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
<b>ELIGIBILITY REVIEW</b>	
Applicant meets all of the IBank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> <li>1. Project is in the State of California.</li> <li>2. Switzer is capable of meeting the obligations incurred under relevant agreements.</li> <li>3. Payments to be made by Switzer to the 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 Project.</li> </ol>
<b>INDUCEMENT CERTIFICATE</b>	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES      Certificate No.: <input checked="" type="checkbox"/> N/A                                      Date:

## RECOMMENDATION

Staff recommends approval of Resolution 14-07, authorizing the issuance of Tax Exempt Obligations, in an amount not to exceed \$2,700,000, for the benefit of Switzer.

## APPENDIX A – GOVERNANCE AND MANAGEMENT

### SWITZER BOARD OF TRUSTEES

Thomas Buescher	Chair - American Business Bank
Lynn Lord	Vice Chair - RE/MAX Estate Properties
John Arensdorf	Secretary - Wells Fargo Bank Wealth Management Group
Judith L. Borck	Treasurer - Borck Family Foundation
Sandra Jacobs	Trustee - DCA Civil Engineering Group
Joel McCloud	Trustee - McCloud Property Acquisitions, Inc.
Michael Norris, J.D.	Trustee - Michael Norris, Inc.
Mike Richardson	Trustee - SoCal Mortgage Company
David Socolofsky	Trustee - ExxonMobil
Tracy Underwood	Trustee - Toyota Motor Sales, USA
Joan Chlebowski, M.D.	Trustee - Retired Oncologist
Beverly A. Mitchell, Ph.D.	Trustee - Del Amo Psychiatric Hospital
Robert VanLingen	Trustee - VanLingen Towing

### Switzer Key Administrative Staff

Dr. Rebecca Foo	Executive Director
Leonard Hernandez	School Principal
Chris O'Grady	Chief Operating Officer

