

KIPP BAY AREA PUBLIC SCHOOLS

Oakland, California

\$16,000,000 EFF Financing / Closed: March 14, 2019 / Final Maturity: April 1, 2049

Obligor Overview

KIPP Bay Area Public Schools (KBAPS) is a California nonprofit corporation established in 2002 with the opening of the first KIPP Bay Area school, KIPP Bridge Academy in the City of Oakland. Today, the network operates fifteen schools via fourteen authorized charters that educate more than 5,700 students. Two are elementary schools, seven are middle schools, two are TK-8, and four are high schools—all in the San Francisco Bay Area. The legal borrower, KIPP Bay Real Estate (KBARE), is the real estate affiliate of KBAPS.

A group of two schools, KIPP Bridge Academy (“KIPP Bridge”) and KIPP Heritage Academy (“KIPP Heritage”, together with KIPP Bridge, the “KBAPS Obligated Group Schools”), represent the portion of the network whose rent will be the source of debt repayment as paid to Seven Trees School LLC and 1700 Market School LLC as the initial members of the obligated group (the “KBAPS Obligated Group Members”).

While KBAPS’ fifteen schools are all located in the same region, they are located in six demographically distinct communities:

- San Francisco;
- Oakland;
- San Jose;
- East Palo Alto;
- San Lorenzo; and
- Redwood City.

KBAPS schools are authorized by nine different authorizers, eight of which are local school districts and one of which is the California State Board of Education.

The mission of KBAPS is “to operate high-achieving public schools in educationally underserved communities, developing in our students the knowledge, skills, and character essential to thrive in college, shape their futures, and positively impact the world.” The “KIPP difference” includes high expectations; safe, structured, and nurturing environments; highly effective teachers and leaders; focus on character; and KIPP Through College.

Charter Contract

The authorizers for the two KBAPS Obligated Group Schools, KIPP Bridge and KIPP Heritage, are the Oakland Unified School District and the Franklin-McKinley School District, respectively.

The KIPP Bridge charter was renewed in 2017 for a five-year term ending June 30, 2022 by its authorizer, the Oakland Unified School District. KIPP Heritage was also recently renewed for a five-year term ending June 30, 2024 by its authorizer, the Franklin-McKinley School District.

Management & Governance

KBAPS’ Board of Directors (the “KBAPS Board”) supports the mission of KBAPS and seeks to ensure that its twenty directors represent a broad area of expertise and cross-section of the community at large. KBAPS Board members are elected to serve three-year terms and may serve up to three consecutive terms. The KBAPS Board has established five committees to enhance the operations of the Board and provide additional oversight: Finance and Investment, Governance, Audit and Risk Management, Grievance, and Executive.

Senior staff includes a Chief Executive Officer (founding CEO), Chief of Schools, Managing Director of Finance, Chief Equity and Inclusion Officer, Chief External Affairs and Communications Officer, Chief People Officer, and

Chief of Growth, Real Estate, Advocacy, and Community Engagement. Biographies of Board members and senior staff are included on the KBAPS website.*

Enrollment & Student Information

KBAPS Obligated Group Schools’ student count for the past four fiscal years is as follows:

**KIPP Bay Area Public Schools
Obligated Group Schools
Historical Student Enrollment
FY16 – FY19**

FY16	FY17	FY18	FY19
534	929	1,017	989

For the 2018-2019 academic year, the KBAPS Obligated Group Schools had an enrollment of 989, which included 537 students across grades TK-8 at KIPP Bridge and the balance of 452 middle school students enrolled in KIPP Heritage. Full enrollment of 985 for the KBAPS Obligated Group Schools is expected to be achieved in 2022 when KIPP Bridge is projected to complete its elementary grade expansion efforts.

One of the KBAPS Obligated Group Schools, KIPP Heritage, is fully enrolled and enrollment has remained static since 2017. KIPP Heritage has no current plans to expand grades or enrollment.

KIPP Heritage maintains a waitlist of 377 students of July 1, 2018, or greater than 84% of its total enrollment, as of the same date. Student retention was 91% for the most recent period, slightly above KBAPS’ average of 90%.

KIPP Bridge was the first school opened by KBAPS in 2002. A material revision to the charter was secured in 2016 to add elementary grades and grow to serve up to 800 students as part of its strategy to operate full K – 12 pipelines in each of its communities. The annex to be refinanced with the loan was completed earlier this year to accommodate this enrollment growth.

In academic year 2016-2017, KIPP Bridge added transitional kindergarten (TK) along with grades kindergarten to 4th (one homeroom in TK and two homerooms in grades K – 4), growing its enrollment by 87% over the previous year. The expansion was the first time in the organization’s history that it opened a school with more than two grade levels. Additionally, the school attracted a higher number of students with special needs and KIPP Bridge needed to implement specialized programs to serve these students. As a result, academic results declined, school leadership turnover occurred, and teacher retention suffered.

To help correct these issues, in January 2018, KIPP Bridge decided to slow by one year its planned enrollment growth to approximately 800 students. As a result of this decision, KIPP Bridge’s overall enrollment declined, as indicated above. In the 2018-2019 academic year, student count at KIPP Bridge totaled 537 as of September 20, 2018, which was thirty-one fewer students than the prior year, and 152 students lower than originally projected. TK, Kindergarten, and 5th grades showed the weakest demand.

On a network basis, KBAPS plans to continue its expansion efforts. Two new schools opened in 2018, including an elementary school in San Francisco and a high school in San Jose. Over the next five years, future replication plans call for seven additional schools, including one in East Palo Alto (high school), five in Stockton (two elementary schools, two middle schools, and one high school) and one in San Lorenzo (elementary school). At full capacity in 2029, these new schools—combined with the completed expansion of KBAPS’ currently operating schools—are expected to serve a total of approximately 11,000 students and would represent an increase of 91.8% over the 2018-2019 academic year enrollment.

* Information contained on the KBAPS website **shall not** be construed as being incorporated herein by reference nor should any decisions relating to the Bonds be made in reliance upon any information from the website.

KBAPS' serves a high needs population with 77% of those enrolled qualify for free and reduced lunch; the current student body also comprises 96% persons of color.

Academic Program & Results

For the most recent academic year with available scores, 2017-2018, 59% of KBAPS students met the passing standard compared to the California average of 49% in ELA assessments. In math, 47% of KBAPS students met standard compared to the State average of 38%.

KBAPS has received the following recognitions:

- KIPP Heritage recognized as one of the top 10 Bay Area public schools for underserved students;
- Seven California Distinguished School awards, including KIPP Bridge in 2011;
- Two National Blue Ribbon schools;
- Two high schools listed in Washington Post's Most Challenging High Schools; and
- Two high schools ranked among the top in the country by U.S. News and World Report.

On a network basis, 85% of KBAPS alumni have matriculated to college — higher than the national average of 64% and the socio-economically disadvantaged average of 45%.

The Project

Proceeds of the thirty-year loan were used to refinance a construction loan from Pacific Charter School Development and to reimburse KBAPS for prior equity contributions. The first of the two loans refinanced was used to construct the KIPP Heritage facility, a \$10 million middle school project. This facility, completed in 2017, is located on a portion of the Los Arboles Elementary School site and consists of eight one-story structures totaling 30,095 square feet. The school shares a parking lot with the district school. The Franklin-McKinley School District is the owner and lessor of the property (as well as the school's authorizer).

The second loan refinanced is related to an annex to KIPP Bridge Academy, a \$10 million expansion project to house the middle school grades when the school expanded from middle school to offering grades K – 8. This facility, completed in 2018, is located in the City of Oakland next to the KIPP Bridge's main school building which is leased to KBAPS by the District. The annex is 21,326 square feet while the main building, built in 1949 and renovated in 1996, is 53,144 square feet for a total of 74,470 square feet. The Oakland Unified School District is the owner and lessor of the property (and is also the school's authorizer).

Financial Information

Certain historical financial information for the KBAPS Obligated Group Schools is listed below. These metrics will be updated and included in ESRF's continuing disclosure annual report.

KIPP Bay Area Public Schools Obligated Group Schools Historical Financial Information			
<u>Metric</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>
Total Revenue (TR)	\$5,544,374	\$10,024,878	\$10,274,424
Lease Coverage Ratio	13.71x	35.93x	1.19x
Lease Coverage Ratio (subordinating management fees)	31.29x	53.51x	2.62x
Debt Burden (% of TR)	1.0%	0.6%	7.5%
Days Cash on Hand	293.7	152.3	141.5

Rating: S&P: BBB

Website: <https://www.KBAPS.org>*

**KIPP Bay Area Public Schools
Obligated Group Schools
Security and Loan Covenants**

Security	First lien leasehold deed of trust on KIPP Heritage Academy, located at 423 Los Arboles Street, San Jose, CA 95111, and, to be delivered in the future, KIPP Bridge Academy, located at 1700 Market Street, Oakland, CA 94607 and a pledge of and lien on Gross Revenues of the KBAPS Obligated Group Members
Debt Service Coverage Ratio	1.00x for the KBAPS Obligated Group; 1.10x for the KBAPS Obligated Group Schools
Additional Bonds Test	Consolidated Base Rent Coverage Ratio of 1.20x for KBAPS
Liquidity Covenant	60 days cash on hand of KBAPS; 60 days cash on hand of KBAPS Obligated Group Schools
Academic Covenant	<p>At least (i) 50% of the Schools (as defined in the Master Indenture of Trust) will exceed the percentage of students proficient in math and ELA on the State assessment in their respective host district's State Assessment or (ii) 75% of the Schools will exceed the percentage of socio-economic disadvantaged students (i.e., SED Students) proficient in math and ELA on the State Assessment in their respective host district. KIPP Bridge Academy for any academic year during the Academic Performance Monitoring Term must meet or exceed the Minimum Performance Threshold or (i) KBAPS shall adopt and submit to the Lender a written five year intervention plan (which may include, without limitation, administrative support (AP, Instructional Coach, Dean of Culture), mental health support (counselor, behavior specialist), instructional (literacy specialist, elective teacher, instructional aide) with the goal of improving academic performance at KIPP Bridge Academy and (ii) allocate philanthropic funds raised by KBAPS, in an amount up to \$500,000 during each academic year included in the intervention plan, to KIPP Bridge Academy in order to implement the intervention plan. The intent of the additional supports is for KBAPS to continue supporting KIPP Bridge Academy in a manner similar to the 2017-18 and 2018-19 academic years. Any such intervention plan shall be updated, and KBAPS shall submit such updated plan to the Lender, at least annually during the five year period covered by the intervention plan.</p> <p>"Minimum Performance Threshold" means, for any applicable academic year, the average percent of all students who are enrolled at each of the Neighborhood Schools and percent of all Socioeconomically Disadvantaged/ Low Income Students (i.e., SED) Students in the Oakland Unified School District who are administered the California SBAC Test with scores indicating "Standard Met" or "Standard Exceeded" on both ELA and Math components of the test.</p>
Enrollment Covenant	Minimum of 900 students between Obligated Group School
Other	Intercept of Lease Payments made by the KBAPS Obligated Group Schools to the KBAPS Obligated Group Members

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