

# SUNFLOWER PUBLIC FINANCE & TAX EXEMPT SPECIALTY LENDING FINANCING PROPOSAL



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June 11, 2019

Cornerstone Academy Charter School (“School” or “Cornerstone”).

**Re: \$17,680,000 Taxable to Tax Exempt Refunding Bonds**

Sunflower Public Finance, LLC, a wholly-owned subsidiary of Sunflower Bank, N.A., is pleased to present this confidential proposal to provide financing Cornerstone Academy Charter School, with the issuance of bonds by the City of Belle Isle, FL (“Issuer”), from bond proceeds in the amount and on the terms and conditions as outlined below. This proposal has received preliminary credit approval subject to the receipt, review and approval of all relevant documentation.

- Lender:** Sunflower Public Finance, LLC, a wholly owned subsidiary of Sunflower Bank, N.A. (“Lender”)
- Obligor:** Cornerstone Academy Charter School (“School” or “Cornerstone”)
- Issuer:** City of Belle Isle, FL (“Issuer”)
- Issue:** \$9,680,000 Taxable to Tax-Exempt Bond, Series 2019A (“Series 2019A”)  
\$8,000,000 Tax-Exempt Draw Facility Bond, Series 2019B (“Series 2019B”, together with the Series 2019A, the “Bonds”; fully funded at closing.
- Loan Purpose:** Series 2019A – To refund existing Series 2012 Bonds and pay for cost of issuance  
Series 2019B – To fund an expansion to the existing School Site.
- Draw Facility:** The Series 2019B will be structured as a draw facility and must be drawn down in full into a Sunflower Bank, N.A. restricted account. The entire amount of the Series 2019B will be funded into the restricted account by the Lender at closing. Draw requests from the School will be monitored and granted by the Lender’s construction monitoring team, and subject to standard Bank Construction requirements (SEE APPENDIX A). The Lender will setup a meeting with the School to go over this requisition process with the construction monitoring team after closing.
- Security:** 1) The Leasehold Mortgage on the School’s Primary Facility  
2) A pledge of and security interest in the Charter School Revenues  
3) A security interest in all other assets of the School
- Title/Survey:** The Lender must receive a certified survey meeting all ALTA requirements and policy of title insurance insuring the full amount of the Lender’s lien.
- Funding/Dated Date:** On or prior to September 5, 2019
- Term:** 23 Years. The Bonds will mature on 10/1/2042
- Amortization:** 23-year equal payment amortization schedule.

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**Interest Rate:** The Series 2019 A and B Bonds will be fixed for up to 30 days prior to closing based on the following formula: **Tax Exempt Rate: (USSW10 + 1.90%) = 4.1% (6-11-19); Taxable Rate (Tax Exempt Rate / 80%) = 5.15% (6-11-19)**

**Default Rate.** In event of default, the rate of interest will accrue at the rate above plus 3.0% until cured.

**Taxable Rate.** If all or any portion of the interest on the Bonds are determined to be taxable in the future, the interest rate will be increased to the Taxable Rate.

**Origination Fee:** 0.55% of the total Par Amount of the Bonds to be paid at closing.

**Hedge Fee:** 0.10% of the total Par Amount of the Bonds to be paid at closing.

**Payments:** Series 2018A - Quarterly principal and interest payments on March, 1; June 1, September 1; December 1 of each year beginning June 1, 2019

Series 2018B – Quarterly principal and interest payments on March, 1; June 1, September 1; December 1 of each year beginning June 1, 2019

**Lender's Counsel Fee:** Estimated \$35,000. To be incurred at Borrower's expense.

### **Banking Relationship:**

Because the Bank is not currently a Qualified Banking Institution (QBI) and cannot legally accept or collateralize the School's funds. In the event, the Bank is able to qualify as a QBI, the School shall maintain its Primary Treasury Relationship with the Bank. "Primary Treasury Relationship" shall be defined as a majority (51% or more) of investable cash in traditional bank products. Sunflower Bank shall pay Borrower for invested cash at Standard Bank Rates.

The School shall direct the Trustee to invest the cash in the "Restricted Account" (As referenced in "Draw Facility" above) as created for the construction project, if it is determined that Sunflower Bank may hold such funds. If Sunflower Bank cannot hold such funds, this requirement shall be waived.

### **Minimum Unrestricted Liquidity:**

The School shall maintain at least 100 days of Unrestricted Liquidity tested annually. The liquidity reserve will be in the lease agreement between the School and building corporation. It requires the School to maintain "cumulative unrestricted cash, in an amount sufficient to pay at least 100 days of its Operating Expenses for the following FY, as calculated by multiplying the total operating expenses of the "Governmental Fund" of the School for the prior FY from its most recent audited financial statements by 100/365. It is test as of June 30<sup>th</sup> of each year commencing 6/30/19 with a certification provided to the trustee.

### **Minimum DSCR:**

The School shall maintain a minimum DSCR 1.10x tested annually. Debt Service Coverage Ratio is calculated with Total Recurring Cash Flow which is defined as Total Revenues less Total Expenditures of the Governmental and Propriety Funds known as the Net Change in Fund Balance. This will then be adjusted to 1) eliminate lease income/payments between the funds and any other transfers between funds, 2) add back interest, depreciation, and amortization and 3) eliminate any financing of capital assets included in expenses and 4) eliminate any one-time non-recurring expenses. Total Recurring Cash Flow will then be divided by total debt service (interest and principal payments for the year).

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### **Additional Bonds**

**Test:** The School shall not after the date of closing, incur any additional Indebtedness that does not exist as of the date of closing, secured in whole or in part by the Facility or the Pledged Revenues. Up to 10% of Pledged Revenues shall be permitted in additional short-term indebtedness and capital leases without Lender approval.

### **Redemption**

**Provision:** The Bonds will be callable in whole on 10/1/2029, and on each payment date thereafter.

### **Documentation:**

The School and its counsel will provide acceptable documentation regarding the transaction including all documents related to the security including the Lease and any amendments, the mortgage, insurance, title and any other documents deemed necessary by the Lender. In addition, the School and its counsel shall provide opinions on the validity and enforceability of the Lease and an opinion stating the interest on the Bonds is exempt from federal taxation.

### **Documentation:**

The School and its counsel will provide acceptable documentation regarding the transaction including all documents related to the security, the mortgage, insurance, title and any other documents deemed necessary by the Lender. In addition, the School and its counsel shall provide opinions on the validity and enforceability of the Lease and an opinion stating the interest on the Bonds is exempt from federal taxation.

### **Assignment:**

The Lender retains the right to assign its interest in each Bond to another “qualified institutional buyer” or an “accredited investor” within the meaning of the Securities Act of 1933, as amended in whole, and to sell or assign participation interests in each Bond, given sufficient notification to the School, the Issuer and the Lessee and delivery of a signed investor letter in the form required by the documents.

### **Trustee:**

The Lender will utilize any Trustee that the School would prefer, provider they are willing to open and holder their accounts at and with the Lender.

### **IRS Disclosure:**

Neither the Lender nor its affiliates provide tax advice. Accordingly, any discussion of U.S. tax matters, contained herein, is not written or intended to be used, and cannot be used, in connection with the promotion, marketing, or recommendation by anyone unaffiliated with the Lender of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

### **Advisory Disclosure:**

The Lender is not a registered municipal advisor as defined under the Dodd-Frank Wall Street Reform and Consumer Protection Act and its related rules and regulations. In providing this proposal, the Lender is not providing any advice, advisory services, or recommendations with respect to the structure, timing, terms, or similar matters concerning an issuance of municipal securities. This proposal is a commercial, arms-length proposal that does not create a fiduciary duty by the Lender to the School, the Issuer or the Lessee. The School, the Issuer and the Lessee may engage separately and at its own cost, an advisor to review this Proposal and the proposed transaction on their behalf.

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If you find this proposal acceptable, please confirm by signing below and returning this letter. Thank you for your consideration and please contact me if you have any questions regarding the proposal. Unless accepted by the School or extended in writing by the Lender, this proposal shall expire on June 30, 2019. Once accepted, this proposal shall expire and along with any rate lock, if the Bonds have not been issued by September 9, 2019.

Sincerely,

SUNFLOWER PUBLIC FINANCE, LLC



Derek Peters

Director- Public Finance & Tax-Exempt Specialty Lending

The undersigned hereby accepts and agrees to the terms of this financial proposal.

**Agreed to and Accepted by:**

**OBLIGOR:**

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

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## APPENDIX A

### Items needed prior to closing:

1. Phase I Environmental Site Assessment, if applicable
2. ALTA survey, signed, dated and certified to SPF, Borrower and the title insurance company, confirming access, no encroachments, and delineating any portion of the site located in a flood hazard area
3. Title Commitment
4. General Liability Insurance and Property insurance, naming SPF mortgagee/lenders loss payable/additional insured, as applicable

### Items to be provided post-closing but prior to any advance for Hard Costs:

1. All Plans and Specifications, which must be dated, stamped, and signed by Architect and Engineer, as applicable
2. Soil Report
3. Fully executed Architect's Contract
4. Fully executed GMP Contract with detailed Schedule of Values (budget)
5. Commercial General Contractor's Questionnaire Form
6. Development Agreement/Construction Management Agreement/Franchise Agreement (if applicable)
7. Construction Schedule
8. Draw Schedule
9. If requested, list of all Major Subcontractors (\$250,000 or more)
10. Building Permit, Zoning Compliance and any other approvals necessary to complete construction of the project
11. If requested, utility "Will-serve"/Connection Letters
12. Builder's Risk, Workmen's Comp and General Liability insurance of Contractor naming SPF as mortgagee/loss payee/additional insured, as applicable
13. Surety Bond (Payment and/or Performance Bond)
14. Total Project Budget
15. Reconciliation and invoices for any pre-paid costs included in the budget
16. If requested, list and contact information for all professionals on the project
17. Copy of Purchase Agreement, if applicable
18. Open Construction Checking Account and Reserve Accounts, if required
19. A Project Costing (Feasibility Report/Project Review and Recommendation). If required, will be prepared by a third-party consultant, at borrower's expense, and the review must be detailed.

### Inspections

1. Property inspections are required prior to funding each draw, even when Borrower's equity is being used to fund the advance. (Exception would be for soft costs only). A site inspection is required to be performed a minimum of once a month on all ongoing construction projects, and may still be requested if a draw is not submitted for a particular month.
2. An approved third-party inspector will be used to inspect the property on behalf of SBNA at the time of each draw request. The Borrower will incur all costs associated with third-party inspections.
3. The inspection will be reviewed by SPF to determine whether payments requested are justified by work completed and materials stored on site.
4. SPF will prepare a spreadsheet reflecting the amount advanced for each line item in the construction budget and the percentage of work completed vs. the percentage of funds advanced.
5. Borrower or general contractor will explain any significant variances from budget

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## Draw Process

1. SPF will require the Borrower to provide a completed Request for Advance or Construction Disbursement Authorization form authorizing SPF to disburse funds for payment to the General Contractor, Subcontractors and Suppliers. SPF will not disburse funds without the Borrower's authorization being obtained. The disbursement request can either be included with each draw request, or submitted once the draw amount has been approved by the SPF.
2. Borrower will submit a General Contractor's Payment Application (AIA 702- 703), invoices for all items listed in the current draw, unconditional lien waivers for the prior draw, and an updated schedule of values with each draw request. If Soft Costs outside the GC's budget are included in the draw request, a Sworn Owner's Statement or Schedule of Values should be submitted with the draw.
3. SPF will order the inspection report, confirm funding has been approved for the general contractor's request, and address any concerns/requirements regarding the loan advance.
4. SPF will review the general contractor's payment schedule and compare to the approved construction budget and the percentage of completion. Budget line items are required to be in- balance with each draw request. (See out-of- balance exception in credit policy)
5. All Change Orders must be fully documented, and they must be paid for at the time they are presented to the bank if the result is an increase in the project budget. The Borrower should be in good communication with the Lender and the CLA so that potential cost overruns addressed by change orders are being disclosed and submitted in a timely manner (with payment).
6. Prior to authorizing an advance, the SPF will obtain the applicable title endorsements. Loan advances shall stop at any time a lien is filed, until SPF is satisfied that the lien has been discharged or funds are available to pay the lien in full (i.e., funds held at the title company or deposited into construction checking account, and not covered by prior retainage), or the borrower/general contractor is disputing the lien and pursuing discharge in good faith, or the lien has been bonded over.
7. Generally, SPF will only advance for items 100% complete at time of inspection. Bank will consider funding deposits related to fabrication or purchase of materials or equipment; provided that general contractor provides purchase order or other supporting documentation required by SPF.
8. Draw requests are typically to be submitted by the 25th of each month for the prior months billings, and will fund by the 5<sup>th</sup> day of the following month. Disbursements are typically made within 5 business days, unless there are errors/omissions within the draw request or discrepancies with the current budget and/or inspection, but the above should be the rule so we are not rushed, possibly resulting in errors. Draws are to be limited to once per month.
9. Retainage will be withheld for each draw request, and held until the project receives Certificate of Occupancy, including completion of all final punch list items, receipt of all final unconditional lien waivers, and the title insurance policy is issued without liens and only exception items that were previously approved.