

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Charter Impact Loans, LLC (“Borrower” or “CIL”)	Par Amount Requested:	Not to exceed \$ 60,000,000
Applicant Description:	CIL is a limited liability company wholly-owned by Charter Impact Fund (“CIF”). CIF is a 501(c)(3) Delaware nonprofit corporation. For federal income tax purposes CIL is a disregarded entity entitled to the tax treatment of its parent company, CIF. CIF formed CIL on February 20, 2018 to originate, acquire, and service loans for charter schools.		
Type of Financing:	Conduit Tax-Exempt Fixed Rate Bonds (“Bonds”)		
Project Description:	The proceeds of the Bonds will be used to (1) reimburse, finance, and refinance the cost of one or more loans to qualifying public charter schools, or their affiliates, to finance or refinance certain costs of acquisition, construction, improvement, equipping, and furnishing of certain educational facilities in California, (2) fund a debt service reserve fund, (3) pay capitalized interest with respect to the Bonds, and (4) pay certain costs of issuance (the “Project”).		
Potential Project Sites:	<p>Alameda County 1700 Market St., Oakland, CA 94607</p> <p>Los Angeles County 603 East 115th St., Los Angeles, CA 90059; 5356 South 5th Ave., Los Angeles, CA 90043; and 1655 27th St., Los Angeles, CA 90011</p> <p>Santa Clara County 423 Los Arboles St., San Jose, CA 95111</p> <p>Solano County 500 Oregon St., Vallejo, CA 94590</p>		
Plan of Finance:	(1) To reimburse, finance, and refinance the Borrower for the cost of loans made, or to be made, to certain California Charter Schools, (2) pay for the capitalized interest of the Bonds, (3) fund necessary reserve funds; and (4) pay for costs of issuance.		
Type of Issue:	Public Offering		
Tax Status:	Tax-Exempt		
Maturity:	June 1, 2055		
Credit Enhancement:	None		
Credit Rating:	Expected credit rating of “A” from S&P		
IBank Fees:	Application Fee \$3,500; Issuance Fee \$75,000; Initial Annual Fee \$3,000 per year		
STO Fee:	Agent For Sale \$8,000		
Estimated Sources of Funds¹:		Estimated Uses of Funds:	
Tax-exempt Bond Proceeds	\$ 60,000,000	Reimbursement of Funds	\$61,864,992
Premium	7,093,242	Reserve Fund Deposit	\$4,028,250
		Costs of Issuance	\$1,200,000
TOTAL SOURCES	\$67,093,242	TOTAL USES	\$67,093,242

¹ The following sources and uses are expressed in the maximum potential amounts and may be less based on the determination of the Borrower at issuance.

Financing Team:		
	Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
	Underwriter:	RBC Capital Markets
	Underwriter Counsel:	Squire Patton Boggs
	Trustee:	U.S. Bank, N.A.
	Agent for Sale:	State Treasurer's Office
Public Benefits:	CIL provides low-cost financing for academically high -performing charter schools in California, with an emphasis on traditionally underserved communities. CIL's charter school financings will result in an average cost savings of approximately \$2 million per school over the 30 year life of the loan, allowing schools to use cost savings to further enhance their educational programs.	
Date of Board Meeting: May 22, 2019	Resolution Number: 19-13	Prepared by: John Belmont on 5/9/2019
Staff Recommendation: Staff recommends approval of Resolution No. 19-13 authorizing the issuance of Conduit Tax-Exempt Fixed Rate Bonds in an aggregate amount not to exceed \$ 60,000,000 for the benefit of Charter Impact Loans, LLC.		

BACKGROUND AND HISTORY

Background and History:

CIL is a Delaware limited liability company. CIL's sole member is CIF. CIF formed CIL on February 20, 2018. CIL is a disregarded entity for federal tax purposes and CIL adopts the tax treatment of its single member, CIF. CIF is exempt from federal income tax under Internal Revenue Code ("IRC") Section 501(c)(3).

CIF is a Delaware nonprofit corporation formed in 2017 as a social impact fund, and has committed, along with its partner organizations, over \$2 billion of philanthropy towards charter schools nationwide. CIF is capitalized with equity monies using a revolving loan fund. CIF operates, is supervised and controlled by the National Alliance for Public Charter Schools ("NAPSC") and the National Association of Charter School Authorizers ("NACSA") pursuant to Section 509(a)(3) of the Code. CIF is organized as a membership nonprofit corporation, with three members: (1) NAPSC, (2) NACSA, and (3) the Walton Family Foundation, Inc. ("WFF"). CIF was launched with philanthropic support from WFF and members of the Walton family.

CIF formed CIL to acquire and service loans to charter schools. CIF identifies charter schools in need of financing, and once identified, underwrites, originates, and closes the loans. Contemporaneously with the closing, CIL purchases the loans from CIF. CIL's purchases provide the capital for the loan funding. Once purchased, CIL services the charter school loans.

CIL purchases and services charter school loans nationwide. However, proceeds of the Bonds will be used only for charter schools in California.

CIL and CIF are listed in the Delaware Secretary of State with Good Standing status. Current leadership is listed in Appendix A.

PROJECT DESCRIPTION

The Borrower is requesting that IBank issue conduit tax-exempt fixed rate revenue bonds (the "Bonds," as defined above) and loan the proceeds to CIL. CIL will use the proceeds to reimburse, finance, and/or refinance CIL's cost of acquiring (1) certain loans CIL purchased previously, and/or (2) potential loans that are in the underwriting process as of this Staff Report, but will be closed prior to or soon after the Bond sale.

CIL has not determined the precise loans it will reimburse, finance, and/or refinance with Bond proceeds. However, CIL has identified a number of candidate loans. Table I shows charter school loans CIL previously acquired or anticipates to acquire. Table II shows potential charter school loans CIL has underwritten or is currently underwriting and intends to acquire prior to closing the Bonds transaction. CIL requests that IBank issue the Bonds in a par amount of up to \$60,000,000 and loan the proceeds to CIL. CIL will use the majority of the proceeds to reimburse, finance, and/or refinance certain charter school loans listed in Tables I and II. CIL will determine which charter school loans to allocate proceeds of the Bonds to prior to closing of the transaction. CIL will use the remaining Bond proceeds to pay capitalized interest, fund necessary reserve funds, and pay costs of issuance. CIL will use no more than: (1) the maximum amount permitted by Internal Revenue Code of the Bonds proceeds for capitalized

interest, (2) the maximum amount permitted by Internal Revenue Code of the Bonds proceeds to fund reserves, and (3) no more than 2.00% of the Bonds proceeds to pay costs of issuance.

Table I – CIL Current and Anticipated School Loans Project Locations

CIL School Loans Portfolio	Number of Students	Full-Time Employees
1. KIPP Bay Area Public Schools Network <ul style="list-style-type: none"> • 423 Los Arboles St., San Jose, CA 95111 • 1700 Market St., Oakland, CA 94607 	5,700	93
2. Alliance for College-Ready Public Schools <ul style="list-style-type: none"> • 603 East 115th St., Los Angeles, CA 90059 • 5356 South 5th Ave., Los Angeles, CA 90043 	7,817	670
3. Caliber Schools <ul style="list-style-type: none"> • 500 Oregon St., Vallejo, CA 94590 	708	68
4. Green Dot Public Schools <ul style="list-style-type: none"> • 1655 27th St., Los Angeles, CA 90011 	5,031	331

Table II – CIL Current and Anticipated School Loans and Reimbursement Amount

Charter Schools	Loan Amount	Reimbursement Amount	Origination Date	Expected Maturity
KIPP Bay Area Public Schools Network	\$16,000,000	\$16,000,000	3/14/2019	4/1/2049
Alliance for College-Ready Public Schools	\$28,000,000	\$28,000,000	Pending	2049
Caliber Schools	\$14,200,000	\$14,200,000	Pending	2049
Green Dot Public Schools	\$7,500,000	\$7,500,000	Pending	2049

(See Appendix B--Project Photos).

FINANCING STRUCTURE

**IBank Term Sheet
Charter Impact Loans, LLC
Board Meeting Date: May 22, 2019**

Par Amount:	Not to exceed \$ 60,000,000 in conduit Tax-Exempt Fixed Rate Bonds.
Type of Offering:	Public Offering
Underwriter:	RBC Capital Markets
Expected Credit Rating:	S&P Global Ratings: "A"
Interest*:	Not to exceed 6.0%
Maturity:	June 1, 2055
Collateral:	The Company Loan will be secured by Obligation No. 2, issued pursuant to Supplemental Master Indenture No. 2 among the Company, as Initial Member of the Obligated Group, Charter Impact Fund, Inc., as Obligated Group Representative, and U.S. Bank National Association, as Master Trustee.
Closing Date*:	August 30, 2019
Conduit Transaction:	The Bonds are special, limited obligations payable solely from payments made by the Borrower under the transaction documents and IBank shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank for all or any portion of payment to be made pursuant to the Bonds.

*Please note that Interest Rate and Closing Date are subject to change.

Financing Structure

The Bonds will be secured by a master trust indenture and sold to RBC Capital Markets as underwriter through a public offering pursuant to a bond purchase agreement. IBank will loan the proceeds of the Bonds to the Borrower pursuant to a loan agreement (the "Loan Agreement").

The Bonds are issuable as fully registered Bonds in minimum denominations of \$5,000 and any integral multiple of \$5,000 in excess thereof.

The Bonds will be secured by, and payable from, payments made by CIL under the Loan Agreement, along with certain accounts established under the master trust indenture. CIL's payments under the Loan Agreement, will, in turn, be made solely from the charter school loans CIL previously acquired and available debt service reserves. CIL will use Bond proceeds to reimburse, finance, and/or refinance its acquisition costs. CIL will utilize the proceeds of the Bonds it used to reimburse loans it acquired with its own equity to acquire additional loans made to eligible charter schools. CIL intends to use the charter school loans it acquires in the future to secure and repay a further round of bond financing.

The Bonds will be designated as the "California Infrastructure and Economic Development Bank National Charter School Revolving Loan Fund Revenue Bonds, Series 2019B." The Bonds will be marketed under an official statement, sold, and closed in conjunction with certain "Series A" bonds. The Series A bonds will be issued by the Arizona Industrial Development Authority and will finance charter school loans outside of California. As discussed above, the Bonds will finance only projects inside California. No proceeds of the Bonds (IBank issued) will be used outside of California. Similarly, no proceeds of the Series A bonds (Arizona Industrial Development Authority issued) will be used within California's borders. The proceeds of the two issues will be kept completely separate; each will be issued pursuant to a separate and distinct indenture and the proceeds will be loaned to CIL pursuant to separate and distinct loan agreements.

Limited Obligations of IBank

The Bonds are payable solely from and secured solely by the pledge of the Borrower's payments under the transaction documents. Neither IBank; nor any of the members of its Board of Directors; nor any of its officers or employees; nor any person executing the transaction documents on behalf of IBank shall be personally liable for the Bonds or subject to any personal liability or accountability by reason of the execution thereof. The Bonds are limited obligations of IBank and are not a pledge of the faith and credit of IBank or the State of California or any of its political subdivisions.

See Appendix C for financial statements of the Charter Schools represented in the California portfolio.

PUBLIC BENEFITS

CIL provides low-cost financing for charter schools in California having successful track records, with an emphasis on traditionally underserved communities. The underlying charter school loans will result in an average cost savings of approximately \$2 million per school over

the 30 year life of the loan, allowing schools to use cost savings to further enhance their educational programs.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained.
TEFRA	
Date of TEFRA Publication:	05/14/2019
Publications:	San Jose Post-Record; Alameda Times Star; Vallejo Times Herald; Metropolitan News-Enterprise (Los Angeles area); and The Sacramento Daily Recorder
Date of TEFRA Hearing:	05/21/2019
Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Applicant meets all of the IBank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. The Borrower is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by the Borrower to 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. See Appendix C for Financial Statements. 4. The proposed financing is appropriate for the Project.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution No. 19-13 authorizing the issuance of Conduit Tax-Exempt Fixed Rate Bonds in an aggregate amount not to exceed \$ 60,000,000, for the benefit of Charter Impact Loans, LLC.

APPENDIX A: GOVERNANCE AND MANAGEMENT

BOARD OF DIRECTORS

Buddy Philpot, Member	Advisor Walton Enterprises Bentonville, AR
Kevin Hall, Member	President & CEO Charter School Growth Fund Broomfield, CO
Greg Richmond, Member	President & CEO National Association of Charter School Authorizers Chicago, IL

OFFICERS

Anand Kesavan	Chief Executive Officer and Founder
Michelle Getz	Chief Credit Officer
Mike McGregor	Fiscal Officer

APPENDIX B: PROJECT PHOTOS

KIPP Bay Area School Facilities to be Financed

KIPP Bridge Academy, Oakland



KIPP Heritage Academy, San Jose



- **Two years Financial Statements from CIL (2017 & 2018)**

IBank’s Board-approved Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities (the “Policies”) provides that applicants are to provide their highest-level financial statements available for the three previous years. However, CIL is a recently formed entity and has only two years of operating history and so has submitted its financial statements for only 2017 and 2018. However, the Bonds will be repaid ultimately from the various school loans reimbursed, financed, and refinanced with the proceeds of the Bonds. So, the financial statements of the schools potentially receiving the benefits of the Bonds are key to the Borrower’s ability to repay the Bonds. IBank has obtained the 2016-2018 financial statements for each school. Staff believes the various schools’ financial statements satisfy the requirements of the Policies.

- **Three years Financial Statements from the Charter Schools**

- KIPP Bay Area Public Schools Network
- Alliance for College-Ready Public Schools
- Caliber Schools
- Green Dot Public Schools