

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Equitable School Revolving Fund, LLC ("Borrower" or "ESRF")	Par Amount Requested:	Not to exceed \$ 70,000,000
Applicant Description:	ESRF is a limited liability company wholly-owned by Equitable Facilities Fund, INC ("EFF"). EFF is a 501(c)(3) Delaware nonprofit corporation. For federal income tax purposes ESRF is a disregarded entity entitled to the tax treatment of its parent company, EFF. EFF formed ESRF on February 20, 2018 to originate, acquire, and service loans for charter schools.		
Type of Financing:	Conduit Tax-Exempt and/or Taxable Fixed Rate Bonds, issued on a Senior Lien or Subordinate Lien basis ("Bonds")		
Project Description:	The proceeds of the Bonds will be used to (1) reimburse, finance and refinance the cost of loans made or to be made to qualifying public charter schools or their affiliates for the purpose of financing or refinancing the cost of acquiring, constructing, improving, equipping and/or furnishing certain educational facilities located 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>Los Angeles County 2558 North San Fernando Road., Los Angeles, CA 90065;</p> <p>San Mateo County 1039 Garden Avenue, East Palo Alto, CA 94303;</p> <p>Solano County 500 Oregon Street, Vallejo, CA 94590.</p> <p>San Joaquin County 501 E. Magnolia Street, Stockton, California 95202</p> <p>Sacramento County 3750 Rosin Court, Sacramento, California 95834 3300 Stockton Boulevard, Sacramento, California 95820</p>		
Plan of Finance:	IBank will lend the proceeds of the Bonds to the Borrower to finance the costs of the Project.		
Type of Issue:	Public Offering		
Tax Status:	Tax-Exempt and/or Taxable		
Maturity:	Up to 2060		
Credit Enhancement:	None		
Credit Rating:	Senior Lien Bonds: Expected credit rating of "A" from S&P; Subordinate Lien Bonds: None expected.		
IBank Fees:	Application Fee \$3,500; Issuance Fee \$75,000; Initial Annual Fee \$3,000 per year		
STO Fee:	Agent For Sale \$8,000 To be paid directly to STO		

Estimated Sources of Funds¹:			Estimated Uses of Funds:	
Tax-exempt and/or Taxable Bond Proceeds		\$ 70,000,000	Loan Origination	
Premium		\$14,977,989	Debt Service Reserve Fund	
			Costs of Issuance	
TOTAL SOURCES		\$84,977,989	TOTAL USES	
			\$84,977,989	
Financing Team:				
Bond & Disclosure Counsel:		Orrick, Herrington & Sutcliffe LLP		
Underwriter:		RBC Capital Markets		
Underwriter Counsel:		Squire Patton Boggs		
Trustee:		U.S. Bank, N.A.		
Financial /Municipal Advisor:		Lamont Financial		
Agent for Sale:		State Treasurer's Office		
Public Benefits:	ESRF provides low-cost financing for academically high-performing charter schools in California, with an emphasis on traditionally underserved communities. ESRF's charter school financings will result in an average cost savings of approximately \$2.5 million per school over the life of the school loan, when compared to the cost of each school individually obtaining financing, allowing schools to use cost savings to further enhance their educational programs.			
Date of Board Meeting:		Resolution Number:		Prepared by:
July 22, 2020		20-11		John Belmont on 7/3/2020
Staff Recommendation: Staff recommends approval of Resolution No. 20-11 authorizing the issuance of Conduit Tax-Exempt and/or Taxable Fixed Rate Bonds in an aggregate amount not to exceed \$70,000,000 for the benefit of Equitable School Revolving Fund, LLC.				

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.

Background and History

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

EFF 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. EFF is capitalized with equity monies using a revolving loan fund. EFF 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. EFF is organized as a membership nonprofit corporation, with three members: (1) NAPSC, (2) NACSA, and (3) the Walton Family Foundation, Inc. ("WFF"). EFF was launched with philanthropic support from WFF and members of the Walton family.

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

EFF's program objectives are:

- Maximize available resources to charter schools that serve underserved communities;
- Reduce cost of capital for high-performing charter schools;
- Use philanthropic subsidy and economies of scale to reduce costs of acquiring loans;
- Increase focus on teaching and learning by reducing Charter schools financial issues;
- Become partner with and support charter schools on exercising best practice on loan payment.

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

ESRF Outstanding Debt

On August 29, 2019, IBank issued ESRF's Series 2019B Bonds ("Prior Bonds"), in issue par amount of \$19,010,000 with the premium amount of \$4,204,308.70. The coupon is 5% with the yield ranging from 1.12% - 2.40%, with final maturity on November 1, 2049.

The Prior Bonds were issued as part of the ESRF bonds issuance relating to the original issuance of \$111,725,000 of National Charter School Revolving Loan Fund Revenue Bonds on August 2019. Series 2019A, with issue par amount of \$92,715,000 was issued by Arizona Industrial Development Authority and will mature on November 1, 2049. ESRF's total current outstanding debt is \$111,725,000.

ESRF and EFF 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 and/or taxable fixed rate revenue bonds (the “Bonds,” as defined above) and loan the proceeds to ESRF. ESRF will use the proceeds to reimburse, finance, and/or refinance ESRF’s cost of acquiring (1) loans ESRF 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.

ESRF will finance or reimburse itself with Bond proceeds for the costs of acquiring loans made to as many as six nonprofit charter schools in California. The six charter schools are: (1) KIPP Esperanza High School, located at 1039 Garden Avenue, East Palo Alto, California 94303 and serving approximately 450 students in grades 9 through 12; (2) KIPP Stockton, located at 501 E. Magnolia Street, Stockton, California 95202 and serving approximately 500 students in grades 5 through 8; (3) Renaissance Arts Academy, located at 2558 North San Fernando Road, Los Angeles, California 90065 and serving approximately 650 students in grades TK through 12; (4) Caliber: ChangeMakers Academy, located at 500 Oregon Street, Vallejo, California 94590 and serving approximately 850 students in grades TK through 8; (5) Hazel Mahone College Prep, located at 3750 Rosin Court, Sacramento, California 95834 and serving approximately 323 students in grades TK through 8; and (6) Ephraim Williams College Prep Middle School and William Lee College Prep, jointly located at 3300 Stockton Boulevard, Sacramento, California 95820.

ESRF may use the Bond proceeds to reimburse itself for a portion of the cost of acquiring/funding the purchase of all six loans, may apply the bond proceeds to reimburse the entire cost of purchasing/funding the acquisition of only a subset of the six loans, or may apply the Bond proceeds to the entire cost of acquiring/funding the acquisition of some of the six loans and to a portion of the cost of acquiring/funding the acquisition of other of the six loans. ESRF will make the final determination of how to divide the Bond proceeds prior to closing. Importantly, all of the Bond proceeds will be directed to the loans and to other costs associated with the Bond transaction.

ESRF requests that IBank issue the Bonds in a par amount of up to \$70,000,000 and loan the proceeds to ESRF. ESRF will use the majority of the proceeds to reimburse, finance, and/or refinance the acquisition of part or all of the six school loans. ESRF will use the remaining Bond proceeds to pay capitalized interest, fund necessary reserve funds, and pay costs of issuance. ESRF will limit the use of Bond proceeds to no more than: (1) the maximum amount permitted by Internal Revenue Code to fund reserves, and (2) no more than 2.00% of the costs of issuance.

Note that while ESRF currently intends to apply the Bond proceeds to the costs of acquiring some combination of the above six loans to charter schools, it is possible that during the pendency of this transaction, ESRF will identify other worthy charter schools in California and will instead direct a portion of the Bond proceeds to acquiring loans to such schools. Any such redirection of Bond proceeds will comply with all applicable federal tax laws and will be used

solely to further ESRF's goal of purchasing and servicing loans for high-performing California charter schools.

The Bonds may be issued on a Senior Lien basis (on parity with the Prior Bonds) or on a Subordinate Lien basis. Any bonds issued on a Senior Lien basis are expected to receive a credit rating of "A" from S&P and be sold in a public offering, and any bonds issued on a Subordinate Lien basis are expected to be unrated and sold in a limited offering, direct purchase, or private placement to qualified institutional buyers.

(See Appendix B--Project Photos).

FINANCING STRUCTURE

**IBank Term Sheet
Charter Impact Loans, LLC
Board Meeting Date: July 22, 2020**

Par Amount:	Not to exceed \$70,000,000 in conduit Tax-Exempt and/or Taxable Fixed Rate Bonds.
Type of Offering:	Public Offering as to Senior Lien Bonds, Limited Offering as to Subordinate Lien Bonds
Underwriter:	RBC Capital Markets
Expected Credit Rating:	Senior Lien Bonds: S&P Global Ratings: "A" Subordinate Lien Bonds: Not rated
Interest Rate*:	Not to exceed 6.0% across all Bonds
Expected Maturity*:	40 years from the date of issuance
Collateral:	The Borrower Loan will be secured by (i) Obligation No. 5, issued pursuant to Supplemental Master Indenture for Obligation No. 5 among the Company, as Initial Member of the Obligated Group, Equitable Facilities Fund, Inc., as Obligated Group Representative, and U.S. Bank National Association, as Master Trustee; and (ii) Subordinate Obligation No. 2, issued pursuant to Supplemental Master Indenture for Subordinate Obligation No. 2 among the Company, as Initial Member of the Obligated Group, Equitable Facilities Fund, Inc., as Obligated Group Representative, and U.S. Bank National Association, as Master Trustee.
Expected Closing Date*:	August 27, 2020
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, Expected Maturity and Expected Closing Date are subject to change.

Financing Structure

The Bonds will be secured by a master trust indenture. Senior Lien Bonds will be sold to RBC Capital Markets as underwriter through a public offering pursuant to a bond purchase agreement, and Subordinate Lien Bonds will be sold in a limited offering, direct purchase, or private placement to qualified institutional buyers. 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. Senior Lien Bonds will be issued in minimum denominations of \$5,000 and any integral multiple of \$5,000 in excess thereof, and Subordinate Lien Bonds will be issued in minimum denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof.

The Bonds will be secured by, and payable from, payments made by ESRF under the Loan Agreement, along with certain accounts established under the master trust indenture. ESRF’s payments under the Loan Agreement, will, in turn, be made solely from the charter school loans ESRF previously acquired and available debt service reserves. ESRF will use Bond proceeds to reimburse, finance, and/or refinance its loan acquisition costs. ESRF 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. ESRF 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 2020,” with appropriate sub-designations differentiating the publicly sold Bonds from those sold in a limited offering, direct purchase, or private placement. The Bonds will be marketed under an official statement, sold, and closed in conjunction with certain “Series A” and “Series C” bonds (collectively, the “Series A/C Bonds”). The Series A/C Bonds will be issued by the Arizona Industrial Development Authority (“AZIDA”) 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/C Bonds (AZIDA 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 ESRF 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

ESRF 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 \$2.5 million per school over the 40 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:	07/15/2020
Publications:	Vallejo Times Herald, Metropolitan News Enterprise, San Mateo County Times, The Stockton Record, and Sacramento Daily Recorder.
Date of TEFRA Hearing:	07/22/2020
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. . 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. 20-11 authorizing the issuance of Conduit Tax-Exempt and/or Taxable Fixed Rate Bonds in an aggregate amount not to exceed \$70,000,000 for the benefit of Equitable School Revolving Fund, LLC.

APPENDIX A: GOVERNANCE AND MANAGEMENT

BOARD OF DIRECTORS

Buddy Philpot, Member	Senior Advisor Walton Enterprises Bentonville, AR
Kevin Hall, Member	CEO Charter School Growth Fund Broomfield, CO
Scott Pearson, Member	Executive Director DC Public Charter School Board Washington, DC

OFFICERS

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

APPENDIX B: PROJECT PHOTOS

ChangeMakers Academy



Hazel Mahone College Prep



William Lee College Prep



Renaissance Arts Academy

