

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

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Equitable School Revolving Fund, LLC ("Borrower" or "ESRF")	<b>Par Amount Requested:</b>	Not to exceed \$93,000,000
<b>Applicant Description:</b>	ESRF is a Delaware limited liability company, and its sole member is 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.		
<b>Type of Financing:</b>	Conduit Tax Exempt and/or Taxable Senior Lien Bonds, Subordinate Lien Bonds, or a Combination of Both, issued on a Senior Lien or Subordinate Lien basis ("Bonds")		
<b>Project Description:</b>	The proceeds of the Bonds may be used for a combination of one or more of the following purposes (1) reimburse, finance and refinance the cost of loans made or to be made with equity funds to qualifying public charter schools or their affiliates for the purpose of financing or refinancing certain costs of the acquisition, construction, improvement, equipping and furnishing of certain educational facilities located in California; (2) fund a debt service reserve fund; (3) pay capitalized interest with respect to the Bonds; (4) pay swap termination payments; and (5) pay certain costs of issuance of the Bonds (collectively, the "Project").		
<b>Potential Project Site:</b>	<p><b><u>Los Angeles County</u></b></p> <p><b>Bright Star School:</b> Valor Academy Middle School 9034 Burnet Avenue North Hills, CA 91343</p> <p><b>Alliance for College-Ready Public Schools:</b> 1- Ouchi-O'Donovan 6-12 Complex 5356 South 5<sup>th</sup> Avenue Los Angeles, CA 90043 2- Jack H. Skirball Middle School 603 East 115<sup>th</sup> Street Los Angeles, CA 90059</p> <p><b>Environmental Charter Schools High Schools:</b> 1- 2818 Manhattan Beach Blvd. Gardena, CA 90429</p>	<p><b><u>Los Angeles County, continued</u></b></p> <p>2- 812 West 165th Place Gardena, CA 90247</p> <p>Middle School: 3- 3600 West Imperial Highway Inglewood, CA 90303</p> <p><b><u>Sacramento County</u></b></p> <p><b>Fortune School:</b> William Lee College Prep and Ephraim Williams College Prep 3300 Stockton Blvd Sacramento, CA 95820</p> <p><b><u>San Mateo County</u></b></p> <p><b>KIPP NorCal:</b> KIPP Esperanza High School 1039 Garden Street East Palo Alto, CA 94303</p>	

<b>Plan of Finance:</b>		IBank will lend the proceeds of the Bonds to the Borrower to finance the costs of the Project.	
<b>Type of Issue:</b>		Public Offering	
<b>Tax Status:</b>		Tax Exempt and/or Taxable	
<b>Term:</b>		Up to 40 years	
<b>Credit Enhancement:</b>		None	
<b>Credit Rating:</b>		Expected S&P Global Ratings: A	
<b>IBank Fees:</b>		Application Fee \$3,500; Issuance Fee \$75,000; Initial Annual Fee \$3,000 per year	
<b>STO Fee:</b>		Agent For Sale \$8,000	
<b>Estimated Sources of Funds:</b>		<b>Estimated Uses of Funds:</b>	
Tax-Exempt and/or Taxable Bonds Proceeds		\$93,000,000	Reimburse, Finance, and Refinance School Loans \$86,000,000
			Debt Service Reserve Fund, Capitalized Interest, and/or Swap Terminations \$5,003,467
			Costs of Issuance \$1,996,533
<b>TOTAL SOURCES</b>		<b>\$93,000,000</b>	<b>TOTAL USES</b>
			<b>\$93,000,000</b>
<b>Financing Team:</b>			
<b>Bond Counsel:</b>		Orrick, Herrington & Sutcliffe LLP	
<b>Underwriter:</b>		RBC Capital Markets	
<b>Municipal Advisor:</b>		Lamont Financial Services Corporation	
<b>Trustee:</b>		U.S. Bank, N.A.	
<b>Credit Enhancement:</b>		None	
<b>Public Benefits:</b>	<p>ESRF provides low-cost financing for charter schools in California having successful track records, with an emphasis on traditionally underserved communities. The Borrower expects the Project will result in an average cost savings of approximately \$3 million per school over the life of each loan, allowing schools to use cost savings in further enhancement of their educational programs, support their long-term financial sustainability, add over 1,500 high quality public charter school seats, and better serve nearly 5,000 students throughout California.</p> <p>The Project is expected to create 50 full time jobs and retain 298 full time and 17 part time jobs.</p>		
<b>Date of Board Meeting:</b>		<b>Resolution Number:</b>	<b>Prepared by:</b>
July 28, 2021		21-12	Steven Wright on 7/8/2021
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No. 21-12, authorizing the issuance of Conduit Tax Exempt and/or Taxable Senior Lien Bonds, Subordinate Lien Bonds, or a Combination of Both Fixed Rate Bonds in an aggregate amount not to exceed \$93,000,000, for the benefit of Equitable School Revolving Fund, LLC.			

## BACKGROUND AND HISTORY

### **Background and History:**

ESRF is a Delaware limited liability company, and its sole member is Equitable Facilities Fund, Inc. (“EFF”). EFF is a 501(c)(3) Delaware nonprofit corporation, exempt from federal income tax under Internal Revenue Code (“IRC” or “Code”). ESRF is a disregarded entity entitled to the tax treatment of its parent company, EFF.

EFF was formed in 2017 to operate revolving funds to benefit charter schools nationwide. EFF’s program objectives are as follows:

- Maximize resources available to charter schools that expand educational opportunity for underserved communities.
- Reduce cost of capital for high-performing charter schools by providing low-cost loans to a diverse pool of high-quality Borrowers.
- Use philanthropic subsidy and economies of scale to save schools additional money by reducing loan transaction and legal fees.
- Increase focus on teaching and learning by reducing facility financing workload for charter school and network staff.
- Partner with and further support schools through regular loan cohort events, best practice sharing, and early intervention to remediate issues.

EFF is structured as a revolving loan fund capitalized with a combination of debt financings and equity monies. EFF is supervised and controlled by the National Alliance for Public Charter Schools (“NAPSC”) and the National Association of Charter School Authorizers (“NACSA”), as supporting organizations 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 made by EFF to charter schools. EFF identifies charter schools in need of financing, and once identified: underwrites, originates, and closes the loans. ESRF then purchases and services the loans from EFF. ESRF’s purchases in turn provide EFF with additional capital for new loan funding.

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**

ESRF has participated in two previous IBank conduit bond financings, one in 2019 and one in 2020. Each was part of a multi-state financing transaction. IBank issued the bonds that financed California projects and the Arizona Industrial Development Authority issued the bonds for the out of state projects

On August 29, 2019, IBank issued ESRF’s Series 2019B Bonds (“Series 2019”), in issue par amount of \$19,010,000, with the premium amount of \$4,204,308.70.

On the same date and as part of the same transaction, the Arizona Industrial Development Authority issued its Series 2019A, with a par amount of \$92,715,000. The 2019 Bonds are currently outstanding in a principal amount of \$110,720,000 and will mature in 2049. This was ESRF's first bond issuance.

On August 20, 2020, IBank issued ESRF's Series 2020B Bonds ("Series 2020"), in issue par amount of \$48,115,000 with the premium amount of \$9,830,093.05. Like the 2019 transaction, on the same date, the Arizona Industrial Development Authority issued its Series 2020 Bonds, with a par amount of \$122,710,000. The 2020 Bonds are currently outstanding in a principal amount of \$170,825,000 and will mature in 2050. The Series 2019 Bonds are on parity with the Series 2020 Bonds.

The proposed 2021 issuance will be the third series of bonds for ESRF's first fund, which will finance an expected total of over \$700,000,000 of charter school project loans.

ESRF and EFF are listed in Good Standing with the Delaware Secretary of State as of July 14, 2021.

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 for (1) loans ESRF purchased previously from EFF, and/or (2) potential EFF loans that are in the underwriting process as of this Staff Report but will close prior to or soon after the Bond sale. The loans were (or will be) used to cover the cost of the acquisition, construction, improvement, equipping, and furnishing of certain charter school educational facilities located in California.

ESRF will fund loans or reimburse itself for loans financed with equity funds to a combination of one or more of the following charter schools through certain special purpose entities formed to support real estate activities of the 5 charter school groups ("Operators"). Certain Operators operate more than one school facility, as introduced below:

- (1) KIPP Bay Area Schools, dba KIPP Public Schools Northern California:
  - (i) KIPP Esperanza High School at 1039 Garden Street, East Palo Alto, CA, 94303.
- (2) Rex and Margaret Fortune School of Education (Fortune School):
  - (i) William Lee College Prep and Ephraim Williams College Prep at 3300 Stockton Boulevard, Sacramento, CA, 95820.
- (3) Bright Star Schools:
  - (i) Valor Academy located at 9034 Burnet Avenue, North Hills, CA, 91343.
- (4) Environmental Charter Schools:
  - (i) Environmental Charter Middle School – Gardena located at 2818 Manhattan Beach Blvd., Gardena, CA, 90429;

- (ii) Environmental Charter Middle School - Inglewood located at 3600 W. Imperial Highway, Inglewood, CA, 90303; and
- (iii) Environmental Charter High School - Gardena located at 812 W.165<sup>th</sup>, Gardena, CA, 90247.

(5) Alliance for College-Ready Public Schools:

- (i) Ouchi-O'Donovan Campus at 5356 South 5th Avenue, Los Angeles, CA 90043; and
- (ii) Skirball Campus at 603 E. 115th Street, Los Angeles, CA, 90059.

Note that while ESRF currently intends to apply the proceeds of the Bonds to the costs of acquiring some combination of the above five loans to the Operators to be used for the charter school properties listed above, 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 the proceeds of the Bonds 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.

### Estimated Loan Amount

Charter Schools Operators	Estimated Loan Amount	Term/Year	Loans Closed?	Purpose of the Loans
KIPP NorCal	\$16,000,000.00	35	N	Acquire facility
Fortune School	\$10,000,000.00	35	N	Lease purchase option
Bright Star Schools	\$12,000,000.00	35	N	Refinance
Alliance for College Ready	\$22,000,000.00	28	Y	Refunding
Environmental Charter Schools	\$26,000,000.00	35	N	Acquire facility and refinance debt
<b>Total Estimated Loan Amount</b>	<b>\$86,000,000.00</b>			

ESRF requests that IBank issue the Bonds in a par amount of up to \$93,000,000, and loan the proceeds to ESRF. ESRF will use the majority of the proceeds to reimburse, finance, and/or refinance the acquisition of some or all of the EFF loans corresponding to the schools noted above. ESRF will use the remaining Bond proceeds for: capitalized interest, funding necessary debt service reserves, making swap termination payments, and paying 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.

The Bonds may be issued on a Senior Lien basis (on parity with the Series 2019 Bonds and the Series 2020 Bonds) or on a Subordinate Lien basis, or a combination of both. The choice of issuance of Senior Lien Bonds and/or Subordinate Lien Bonds will depend upon market conditions at the time of sale. Any bonds issued on a Senior Lien basis are expected to receive a credit rating of "A" from S&P and will be sold in a public offering (so long as the actual credit rating satisfies IBank's conditions for a public offering). 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 or certain accredited investors. These conditions are consistent with IBank's Policies and Procedures for Conduit Revenue Bonds Financing for Economic Development Facilities, as approved by the IBank Board on 2/24/21.

## FINANCING STRUCTURE

### IBank Term Sheet

Equitable School Revolving Fund, LLC  
Board Meeting Date: 7/28/2021

<b>Par Amount:</b>	Not to exceed \$93,000,000 in conduit Tax Exempt and/or Taxable Senior Lien Bonds, Subordinate Lien Bonds, or a Combination of Both
<b>Type of Offering:</b>	Public Offering as to any Senior Lien Bonds and Limited Offering as to any Subordinate Lien Bonds
<b>Underwriter:</b>	RBC Capital Markets
<b>Credit Enhancement:</b>	None
<b>Expected Credit Rating:</b>	Senior Lien Bonds: S&P Global Ratings: A Subordinate Lien Bonds: Not Rated
<b>Interest Rate*:</b>	Not to exceed 6% across all Bonds
<b>Maturity*:</b>	40 years from the date of issuance
<b>Collateral:</b>	The ESRF Loan will be secured by (i) Obligation No. 7, issued pursuant to Supplemental Master Indenture for Obligation No. 7 among the ESRF, as Initial Member of the Obligated Group, EFF as Obligated Group Representative, and U.S. Bank National Association as Master Trustee; and/or (ii) Subordinate Obligation No. 2, issued pursuant to Supplemental Master Indenture for Subordinate Obligation No. 2 among the ESRF, as Initial Member of the Obligated Group, EFF as Obligated Group Representative, and U.S. Bank National Association as Master Trustee.
<b>Expected Closing Date*:</b>	September 30, 2021
<b>Conduit Transaction:</b>	The Subordinate Lien Bonds, or a Combination of Both 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 Subordinate Lien Bonds, or a Combination of Both.

\*Please note that Interest Rate, Maturity, and Expected Closing Date are subject to change.

## **Financing Structure**

The Bonds will be secured by a Master Trust Indenture (“MTI”). Any Senior Lien Bonds will be sold to RBC Capital Markets as underwriter, through a public offering pursuant to a bond purchase agreement, and any Subordinate Lien Bonds will be sold in a limited offering, direct purchase, or private placement to qualified institutional buyers and/or certain accredited investors. IBank will loan the proceeds of the Bonds to the Borrower pursuant to a loan agreement (“Loan Agreement”).

The Bonds are issuable as fully registered Bonds. Any Senior Lien Bonds will be issued in minimum denominations of \$5,000 and any integral multiple of \$5,000 in excess thereof, and any 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 MTI. The security provided by the MTI includes a pledge of and security interest in the Borrower’s “Pledged Assets,” which include ESRF revenues, as well as the deeds of trust securing the school loans originated by EFF and purchased by ESRF. ESRF will utilize the proceeds of the Bonds to reimburse itself for the EFF loans it acquired with its own equity, and to acquire additional loans made to eligible charter schools. ESRF intends to use the charter school loans it acquires in the future to “revolve” the fund and to secure and repay additional rounds of bond financing.

The Bonds will be designated as the “California Infrastructure and Economic Development Bank Senior National Charter School Revolving Loan Fund Revenue Bonds, Series 2021B – Social Bonds.” The “Social Bonds” designation is based on the social benefits of addressing socioeconomic advancement and empowerment of students who attend the charter schools financed by the Project. Third party Kestrel Verifiers will provide an opinion that the Bonds qualify as “Social Bonds.” The Project will enable the charter school borrowers to better serve students from underserved communities, including students living below the poverty line, students with under-resourced parents, and homeless students.

The Bonds will be marketed under an official statement, sold, and closed in conjunction with certain “Series 2021A”, “Series 2021C”, “Series 2021D”, and “Series 2021E” bonds. The Borrower’s other Series 2021 Bonds will be issued by different issuers as indicated below:

- (i) The Series 2021A Bonds: Arizona Industrial Development Authority;
- (ii) The Series 2021C Bonds: Massachusetts Development Finance Agency;
- (iii) The Series 2021D Bonds: City of Albany Capital Resource Corporation (NY); and
- (iv) The Series 2021E Bonds: Washington Housing Finance Commission.

The Series 2021A, the Series 2021C, the Series 2021D, and the Series 2021E Bonds will finance charter school loans outside of California.

## **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,



Subordinate Lien Bonds, or a Combination of Both or subject to any personal liability or accountability by reason of the execution thereof. The Bonds, Subordinate Lien Bonds, or a Combination of Both 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.

**PUBLIC BENEFITS**

ESRF provides low-cost financing for charter schools in California that having successful track records, with an emphasis on traditionally underserved communities. The Borrower expects the Project will result in an average cost savings of approximately \$3 million per school over the 40-year life of the loan, allowing schools to use cost savings in further enhancement of their educational programs, support their long-term financial sustainability, add over 1,500 high quality public charter school seats, and better serve nearly 5,000 students throughout California.

The Project is expected to create 50 full time jobs and retain 298 Full time and 17 part time jobs.

**OTHER PROJECT DATA**

Required?	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Describe:</b>
Date of TEFRA Publication:	07/21/2021
Publications:	<i>Los Angeles Daily News, Palo Alto Daily Post and The Sacramento Bee (or Daily Recorder)</i>
Date of TEFRA Hearing:	07/28/2021
Oral/Written Comments:	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Explain:</b>
Applicant meets all the IBank eligibility criteria? <input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b>	<ol style="list-style-type: none"> <li>1. Project is in the State of California.</li> <li>2. The Borrower is capable of meeting the obligations incurred under relevant agreements.</li> <li>3. Payments to be made by the Borrower to IBank under the proposed financing agreements are adequate to pay the current expenses of IBank in connection with the financing and to make all the scheduled payments. See Appendix C for Financial Statements.</li> <li>4. The proposed financing is appropriate for the Project.</li> </ol>
Completed?	<input type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES</b> Certificate No.: <input checked="" type="checkbox"/> <b>N/A</b> Date:

**RECOMMENDATION**

Staff recommends approval of Resolution No. 21-12, authorizing the issuance of Conduit Tax Exempt and/or Taxable Senior Lien Bonds, Subordinate Lien Bonds, or a Combination of Both

in an aggregate amount not to exceed \$93,000,000, for the benefit of Equitable School Revolving Fund, LLC.

## APPENDIX A: GOVERNANCE AND MANAGEMENT

### BOARD OF DIRECTORS

Kevin Hall, Director	CEO Charter School Growth Fund Broomfield, CO
Buddy Philpot, President	Senior Advisor Walton Enterprises Bentonville, AR
Scott Pearson, Secretary	Former Executive Director DC Public Charter School Board
Ricardo Beausoleil, Director	Staffing Specialist CT Corporation Wilmington, DE

### OFFICERS

Anand Kesavan	Chief Executive Officer
Michelle Getz	Chief Credit Officer
Mike McGregor	Chief of Staff