

**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 \$76,000,000;			
<b>Applicant Description:</b>	ESRF is a Delaware 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.				
<b>Type of Financing:</b>	Conduit Tax-Exempt Fixed Rate Bonds issued on a Senior Lien or Subordinate Lien basis ("Bonds")				
<b>Project Description:</b>	The proceeds of the Series 2022B 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 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 certain costs of issuance in connection with the issuance of the Bonds; and (4) pay termination payments on related hedging arrangements and swap agreements (collectively, the "Project").				
<b>Potential Project Sites:</b>	<table border="0" style="width: 100%;"> <tr> <td style="width: 33%; vertical-align: top;"> <p><b>(1) <u>Sacramento County</u></b>  <b>Ephraim Williams College Prep</b>  4545 9<sup>th</sup> Avenue  Sacramento, CA 95820</p> <p><b>William Lee College Prep</b>  3300 Stockton Boulevard  Sacramento, CA 95820</p> </td> <td style="width: 33%; vertical-align: top;"> <p><b>(3) <u>San Joaquin County</u></b>  <b>KIPP Stockton K-12</b>  742 Dallas Avenue  Stockton, CA 95206</p> <p><b>KIPP Stockton K-8</b>  820 N. American Street  Stockton, CA 95202</p> </td> <td style="width: 33%; vertical-align: top;"> <p><b>(2) <u>Los Angeles County</u></b>  <b>Environmental Charter High School – Gardena</b>  2828 and 2818 Manhattan Beach Boulevard  Gardena, CA 90247</p> <p><b>Environmental Charter Middle School – Gardena</b>  809, 812, and 813 W. 165<sup>th</sup> Place  Gardena, CA 90247</p> <p><b>Environmental Charter Middle School – Inglewood</b>  3600 West Imperial Highway  Inglewood, CA 90303</p> </td> </tr> </table>		<p><b>(1) <u>Sacramento County</u></b>  <b>Ephraim Williams College Prep</b>  4545 9<sup>th</sup> Avenue  Sacramento, CA 95820</p> <p><b>William Lee College Prep</b>  3300 Stockton Boulevard  Sacramento, CA 95820</p>	<p><b>(3) <u>San Joaquin County</u></b>  <b>KIPP Stockton K-12</b>  742 Dallas Avenue  Stockton, CA 95206</p> <p><b>KIPP Stockton K-8</b>  820 N. American Street  Stockton, CA 95202</p>	<p><b>(2) <u>Los Angeles County</u></b>  <b>Environmental Charter High School – Gardena</b>  2828 and 2818 Manhattan Beach Boulevard  Gardena, CA 90247</p> <p><b>Environmental Charter Middle School – Gardena</b>  809, 812, and 813 W. 165<sup>th</sup> Place  Gardena, CA 90247</p> <p><b>Environmental Charter Middle School – Inglewood</b>  3600 West Imperial Highway  Inglewood, CA 90303</p>
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<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
<b>Term:</b>	40 years
<b>Credit Enhancement:</b>	None
<b>Credit Rating:</b>	Expected S&P Global Rating: 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	\$76,000,000;
	Funds Reimbursement \$70,688,153
	Debt Service Reserve Fund \$3,000,000
	Swap Termination \$1,000,000
	Costs of Issuance \$1,311,847
<b>TOTAL SOURCES</b>	<b>\$76,000,000</b>
	<b>TOTAL USES</b>
	<b>\$76,000,000</b>
<b>Financing Team:</b>	
<b>Bond Counsel:</b>	Orrick, Herrington & Sutcliffe LLP
<b>Underwriter:</b>	Underwriting syndicate with RBC Capital Markets, LLC acting as senior manager, and including, but not limited to Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC, Siebert Williams Shank & Co. LLC, and Stephens Inc. acting as co-managers.
<b>Co-managers:</b>	
<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>	ESRF provides low-cost financing for charter schools in California having successful track records, with an emphasis on traditionally underserved communities. The Borrower subsidizes each one of its loans with philanthropy, allowing schools to save an average of over \$3 million per year, allowing schools to use cost savings in further enhancement of their educational programs.
	The Project is expected to create 176 Full time and 1 part time jobs.
<b>Date of Board Meeting:</b> July 27, 2022	<b>Resolution Number:</b> 22-09
	<b>Prepared by:</b> John Belmont on 6/24/2022
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No. 22-09 authorizing the issuance of Conduit Tax-Exempt Fixed Rate Bonds, in an aggregate amount not to exceed \$76,000,000, for the benefit of Equitable School Revolving Fund, LLC.	

## BACKGROUND AND HISTORY

### **Background and History:**

ESRF is a Delaware limited liability company wholly owned by 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 as a social impact fund 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 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**

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. The coupon is 5% with the yield ranging from 1.12% - 2.40%, with final maturity on November 1, 2049.

The Series 2019 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 in 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. 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 with a final maturity on November 1, 2055. The Series 2020 Bonds were issued as part of the ESRF bonds issuance

relating to the original issuance of \$170,825,000 of National Charter School Revolving Loan Fund Revenue Bonds. Series 2020A, with par amount of \$122,710,000, was issued by Arizona Industrial Development Authority and will reach maturity on November 1, 2050.

On October 20, 2021, IBank issued ESRF's Series 2021B Bonds ("Series 2021"), in issue par amount of \$30,650,000 with the premium amount of \$5,030,966.55 and final maturity on November 1, 2056. The Series 2019 Bonds and the Series 2020 Bonds are on a parity with the Senior Series 2021 Bonds. IBank didn't issue Subordinated Bonds for ESRF in 2019, 2020, and 2021.

ESRF and EFF are listed in Good Standing with the Delaware Secretary of State as of June 22, 2022.

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 ESRF. ESRF will use the proceeds to reimburse, finance and/or refinance (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 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 3 charter school groups ("Operators"). Certain Operators operate more than one school facility, as introduced below:

### **(1) Rex and Margaret Fortune School of Education (Fortune School)**

- (i) Ephraim Williams College Prep at 4545 9<sup>th</sup> Avenue, Sacramento, CA 95820
- (ii) William Lee College Prep at 3300 Stockton Blvd, Sacramento, CA 95820

### **(2) Environmental Charter Schools:**

- (i) Environmental Charter High School – Gardena at 2828 Manhattan Beach Blvd., Gardena, CA 90247
- (ii) Environmental Charter Middle School – Gardena at 809, 812 and 813 W. 165th Place, Gardena, CA 90247
- (iii) Environmental Charter Middle School – Inglewood at 3600 West Imperial Highway, Inglewood, CA 90303

### **(3) KIPP Public Schools Northern California**

- (i) KIPP Stockton K-12 at 742 Dallas Avenue, Stockton, CA 95206
- (ii) KIPP Stockton K-8 at 820 N. American Street, Stockton, CA 95202

While ESRF currently intends to apply the proceeds of the Bonds to the costs of acquiring some combination of the above 3 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.

### Charter Schools Estimated Loan Amount

Charter Schools	Estimated Loan Amount	Maturity	Loans Closed	Purpose of the Loans
(1) William Lee College Prep & Ephraim Williams College Prep	\$8,097,239	11/1/2056	10/14/2021	Acquire facility
(2) Environmental Charter High School – Gardena; Environmental Charter Middle School – Gardena; Environmental Charter Middle School – Inglewood	\$31,000,000	3/1/2057	3/23/2022	Refinancing
(3) KIPP Stockton K-12; KIPP Stockton K-8	\$32,590,914	5/1/2057	6/2/2022	Ground Lease
<b>Total Estimated Loan Amount</b>	<b>\$71,688,153</b>			

ESRF requests that IBank issue the Bonds in a par amount of up to \$76,000,000 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 seven schools noted above. ESRF will use the remaining Bond proceeds to fund necessary debt service reserve funds; pay swap termination payments; 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.

The Bonds may be issued on a Senior Lien basis (on parity with the Series 2019 Bonds, the Series 2020 Bonds, and the Series 2021 Bonds) or on a Subordinate Lien basis. 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), while 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. 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.

(See Appendix B--Project Photos)

## FINANCING STRUCTURE

### **IBank Term Sheet**

Equitable School Revolving Fund, LLC

Board Meeting Date: 7/27/2022

<b>Par Amount:</b>	Not to exceed \$76,000,000; in one or more tax-exempt series
<b>Type of Offering:</b>	Public Offering as to Senior Lien Bonds and Limited Offering as to Subordinate Lien Bonds
<b>Underwriter:</b>	Underwriting syndicate with RBC Capital Markets acting as senior manager, and including but not limited to Goldman Sachs & Co. LLC, Morgan Stanley & Co. LLC, Siebert Williams Shank & Co. LLC, and Stephens Inc. acting as co-managers
<b>Credit Enhancement:</b>	None Expected
<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. 11, issued pursuant to Supplemental Master Indenture for Obligation No. 11 among the ESRF, as Initial Member of the Obligated Group, EFF., as Obligated Group Representative, and U.S. Bank Trust Company, National Association, as Master Trustee; and (ii) Subordinate Obligation No. 3, issued pursuant to Supplemental Master Indenture for Subordinate Obligation No. 3 among the ESRF, as Initial Member of the Obligated Group, EFF as Obligated Group Representative, and U.S. Bank Trust Company, National Association, as Master Trustee.
<b>Expected Closing Date*:</b>	August 30, 2022
<b>Conduit Transaction:</b>	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, Maturity, and Expected Closing Date are subject to change.

## Financing Structure

The Bonds will be secured by a Master Trust Indenture (“MTI”). The Bonds will be sold to underwriting syndicate with RBC Capital Markets acting as senior manager 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 (“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 made in book-entry-only form (without physical certificates) and 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 National Charter School Revolving Loan Fund Revenue Bonds, Series 2022B – 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. 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 2022A” Bonds. The Borrower’s Series 2022A Bonds will be issued by Arizona Industrial Development Authority and 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. IBank; any of the members of its Board of Directors; any of its officers or employees; and any person executing the transaction documents on behalf of IBank shall not 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.

## PUBLIC BENEFITS

ESRF provides low-cost financing for charter schools in California that have 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.

The Project is expected to create and retain 176 Full time and 1 part time jobs.

**OTHER PROJECT DATA**

<b>PERMITS AND APPROVAL</b>	
Required?	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Describe:</b>
<b>TEFRA</b>	
Date of TEFRA Publication:	07/18/2022
Publications:	<i>Publication (s) local to The Project Site (s) and The Sacramento Bee (or Daily Recorder)</i>
Date of TEFRA Hearing:	07/25/2022
Oral/Written Comments:	<input checked="" type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES, Explain:</b>
<b>ELIGIBILITY REVIEW</b>	
Applicant meets all of 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 the IBank in connection with the financing and to make all the scheduled payments.</li> <li>4. The proposed financing is appropriate for the Project.</li> </ol>
<b>INDUCEMENT CERTIFICATE</b>	
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. 22-09 authorizing the issuance of Conduit Tax-Exempt Fixed Rate Bonds, in an aggregate amount not to exceed \$76,000,000, 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

### OFFICERS

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

## APPENDIX B: PROJECT PHOTOS

### KIPP Public Schools Northern California

#### Conway Homes Middle School, Stockton



#### University Park Middle School, Stockton

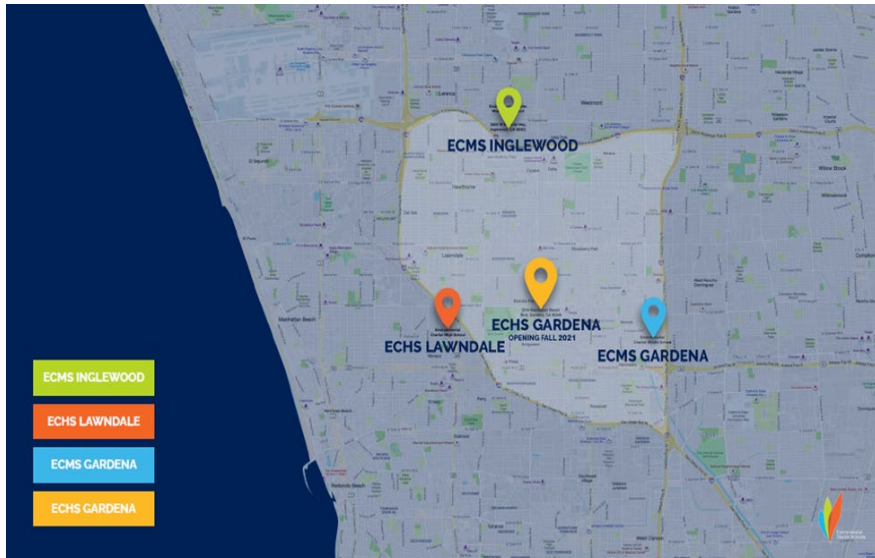


Fortune





# Environmental Charter Schools



## Gardena HS



Gardena MS and Inglewood MS

