

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

STAFF REPORT

EXECUTIVE SUMMARY	
Applicant:	Fortune Facilities LLC (“Borrower” or “Fortune”)
Par Amount Requested:	\$12,000,000
Applicant Description:	Fortune Facilities LLC, a California limited liability company, whose sole member is Rex and Margaret Fortune School of Education, a California 501 (c)(3) nonprofit public benefit corporation (“Fortune School”).
Type of Financing:	Conduit Tax-Exempt and/or Taxable Fixed Rate Bonds (“Bonds” or “IBank Bonds”)
Project Description:	The Borrower is requesting that IBank issue Bonds to: (1) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of an educational facility known as Fortune Home Office, (2) pay capitalized interest on the Bonds, (3) pay certain costs in connection with the issuance and sale of the Bonds, and (4) fund a debt service reserve fund, a repair and replacement fund, and/or related working capital with respect to the Bonds (collectively, the “Project”).
Potential Project Sites:	<u>Sacramento County</u> 2890 Gateway Oaks Drive, Sacramento, California 95833
Plan of Finance:	The IBank’s Bonds will be issued concurrently with the California School Finance Authority’s Series 2024A and 20204B Bonds (the “CSFA Bonds”), the proceeds of which will be loaned to the Borrower to fund the acquisition of certain charter school facilities in Sacramento, California. IBank will lend the proceeds of the Bonds to the Borrower to finance and/or refinance all or a portion of the costs of the Project.
Type of Issue:	Limited Public Offering
Tax Status:	Tax Exempt and/or Taxable
Expected Maturity Date:	40 years
Credit Enhancement:	None
Credit Rating:	Expected S&P Rating: BBB-
IBank Fees¹:	Application Fee \$5,000; Issuance Fee \$21,000; Initial Annual Fee \$1,800
STO Fee:	Agent for Sale: \$3,500

SOURCES AND USES			
Estimated Sources Funds:		Estimated Uses Funds:	
Tax-Exempt Bonds Proceeds	\$9,750,000	Land/Building Acquisition	\$8,630,000
Taxable Bonds Proceeds	\$250,000	Debt Service Reserve Fund	\$610,000
		Capitalized Interest	\$510,000
		Costs of Issuance	\$250,000
TOTAL SOURCES	\$10,000,000	TOTAL USES	\$10,000,000

¹ IBank Issuance Fee and Initial Annual Fee are based on the NTE amount and so, are subject to change.

FINANCING TEAM	
Bond Counsel:	Orick, Herrington & Sutcliffe LLP
Underwriter:	Stifel, Nicolaus, & Company, Inc.
Disclosure Counsel:	Stradling Yocca Carlson & Rauth LLP
Consultant:	First Tryon
Trustee:	Wilmington Trust, National Association
Public Benefits:	<p>Fortune School is a charter network serving Sacramento County and the city of San Bernardino. Fortune School also provides training to teachers and administrators with diverse programs in education for public schools, and offers graduate school level programs in education. The Fortune Home Office facility will serve as a central office for Fortune School's operations.</p> <p>The Project will allow the Borrower to expand the Fortune's graduate program offerings. The Project is expected to create additional 10 – 15 full time and/or part time jobs within Fortune School in future once the space becomes available. The graduate program will help increase pipeline of diverse teachers in California.</p>
Date of Board Meeting:	8/28/2024
Resolution Number:	24-13
Prepared by:	John Belmont
Date Prepared:	August 2, 2024
Staff Recommendation:	Staff recommends approval of Resolution No. 24-13 authorizing the issuance of conduit Tax-exempt and/or Taxable Fixed Rate Bonds in an amount not to exceed \$12,000,000 for the benefit of Fortune Facilities LLC.

BACKGROUND AND HISTORY

The Rex and Margaret Fortune School of Education (“Fortune School”) was established in 1993 to provide training and preparation programs for teachers and administrators by bringing diverse programs into public schools, especially in areas of science and mathematics. Dr. Rex Fortune, founder, has created a graduate school now known as Fortune School of Education. The Fortune School will lease the Facility from the Borrower and operate the school.

Founded in Sacramento in 2021, Fortune Facilities LLC (the “Borrower”) operates as a single purpose entity of which Fortune School is the sole member, with no assets other than the Facilities owned or leased by it and its rights under the respective lease, which will be assigned to the Trustee. Fortune Facilities LLC was formed for the purpose supporting Fortune School, including by owning facilities, and is not expected to have any other assets or revenue available to make payments due under the Loan Agreement.

In 2008, Margaret Fortune joined Fortune School as its President and CEO. She expanded Fortune School to include a system of tuition-free, college preparatory, and public charter schools. Located in San Bernardino and Sacramento, which has the second and third highest Black student populations in California, the schools focus on closing the African American achievement gap. Fortune School is a partnership between public charter schools and the Black Press. Fortune School has partnership with the Black Voice News and The Sacramento Observer Newspaper. Each Fortune School is named to honor local African American community icons and the culture.

Fortune School operates all the schools and educational institutions. There are currently 235 full time employees. A summary of Fortune School’s facilities is set forth below. The proceeds of the IBank Bonds will be used to finance the acquisition and improvement of Fortune Home Office. The proceeds of the CSFA Bonds to be issued concurrently with the IBank Bonds will be used to finance the acquisition of (i) Alan Rowe College Prep, (ii) Fortune Middle School and Rex and Margaret Fortune Early College High School, and (iii) Tecoy Porter College Prep and Stephon A. Clark College Prep Middle School.

School/Facilities	Site
William Lee College Prep (TK- 5)	3300 Stockton Blvd, Sacramento, CA 95820
Ephraim Williams College Prep Middle School (6-8)	4545 9th Ave, Sacramento, CA 95820
Alan Rowe College Prep (TK-4)	9424 Big Horn Blvd, Elk Grove, CA 95758
Fortune Middle School (5-8) and Rex and Margaret Fortune Early College High School (912)	10420 Big Horn Blvd, Elk Grove, CA 95757
Tecoy Porter College Prep (TK- 5) and Stephon A. Clark College Prep Middle School (6-8)	2801 Meadowview Rd., Sacramento, CA 95832
Hardy Brown College Prep (TK-8)	655 West 2nd Street, San Bernardino, CA 92410
Fortune School (TK-5)	6829 Stockton Blvd, Suite 380, Sacramento, CA 95823
Hazel Mahone College Prep (TK-5)	3750 Rosin Court, Suite 120, Sacramento, CA 95834
Fortune Home Office	2890 Gateway Oaks Dr., Sacramento, CA 95833

Fortune’s higher education programs enrollments during the 23-24 school year:

Pre-Service	60
District Interns	45
Master’s Program	5
ASC Program	5

Additionally, Fortune School runs a District Intern Program. Pre-Service is a pre-requisite to the District Intern Program. Once candidates successfully complete Pre-Service they can move into the District Intern program. The District Intern program is an alternative pathway to teacher credentialing. The District Intern program has 23 students projected to complete the program by May 2025. Fortune School’s enrollment as of the Fall Census was 2,076.

The Masters’ program started in 2023. Teachers who have a Masters’ degree are placed higher on their District’s salary schedule. The Administrative Services Credential program allows teachers to get their Administrative Services Credential which opens Principal and other administrative jobs to them.

For preschool, Fortune School operates 1 class in San Bernardino of 18 students and 2 classes in Elk Grove averaging about 34 students.

The Borrower is listed in Good Standing with the California Secretary of State as of 8/2/2024.

Current leadership is listed in Appendix A.

PROJECT DESCRIPTION

The Project involves (i) financing and/or refinancing the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of an educational facility known as Fortune Home Office, located at 2890 Gateway Oaks Drive, Sacramento, California 95833 (the “Facility”); (ii) paying capitalized interest on the Bonds; (iii) paying certain costs in connection with the issuance and sale of the Bonds; and (iv) funding a debt service reserve fund, a repair and replacement fund, and/or related working capital with respect to the Bonds. Rex and Margaret Fortune School of Education is the lessee (the “Lessee”) and the sole member and manager of the Borrower.

The Facility will serve as the central office for Fortune’s charter school, preschool, and higher education operations. Additionally, a portion of the facility is used as classroom space for Fortune School’s graduate program. The facility is a 59,712 Square Foot, two story, Class B office building with 238 parking spaces. Fortune School estimates the Project cost to be approximately \$8,630,000.

Non IBank Issued Prior Debt:

In 2021, Educational Facilities Fund (EFF) made a loan to the Borrower in the aggregate principal amount of \$6,764,111.47 through CSFA (the "2021 Loan"), to finance the acquisition of two of its campuses, William Lee College Prep (WLCP) and Ephraim Williams College Prep (EWCP). In connection with the 2021 Loan, an Obligated Group was created to establish a shared collateral pool across all future loans and obligations of the Fortune School and the Borrower. In addition to the shared collateral pool, the purpose of the Obligated Group is to set forth an Additional Bonds/Obligations Test that clarifies the terms and mechanics of any additional debt of the Fortune School and the Borrower. The IBank Bonds and CSFA Bonds will be secured by the collateral and terms of the Obligated Group in accordance with the provisions of the Master Indenture establishing the Obligated Group; in other words, all debt issued in connection with the Obligated Group will be on parity and cross-collateralized.

WLCP and EWCP were the initial Schools in the Obligated Group. The Home Office facility to be acquired by the Borrower with the proceeds of the IBank Bonds will be added as an Obligated Group School. Four schools to be acquired by the Borrower with the proceeds of the CSFA Bonds, Alan Rowe College Prep (ARC), Fortune Middle School (FMS), Rex and Margaret Fortune Early College High School (FECHS), and Tecoy Porter College Prep (TPCP), will be also added as Obligated Group Schools.

The 2021 Loan will be on parity with the 2024 IBank Bonds and the 2024 CSFA Bonds.

Outstanding Debt	Debt Type	Issue Date	Issue Par Amount	Final Maturity	Current Outstanding Amount	Trustee
2021 Loan	Tax-Exempt	10/14/2021	\$6,764,111.47	12/1/2056	\$6,566,534	Wilmington

(See Appendix B--Project Photos)

FINANCING STRUCTURE

IBank Term Sheet Fortune Facilities LLC Board Meeting Date: 8/28/2024

Par Amount:	Not to exceed \$12,000,000; in one or more Tax-Exempt and/or Taxable Series.
Type of Offering:	Limited Public Offering.
Underwriter:	Stifel, Nicolaus, & Company, Inc.
Credit Enhancement:	None Expected
Expected Credit Rating:	S&P Global Ratings: BBB-
True Interest Cost:	Not to exceed 6.50%
Expected Maturity*:	40 years from the date of issuance.
Collateral:	The Borrower Loan will be secured by Obligation No. 3, issued pursuant to Supplemental Master Indenture for Obligation No. 3 between the Borrower, as Initial Member of the Obligated Group and Obligated Group Representative, and Wilmington Trust, National Association, as Master Trustee. The Borrower Loan will also be secured by deeds of trust, security agreements, assignments of rents and leases and financing statements (the "Mortgages") in favor of the Master Trustee, granting the Master Trustee a first priority lien on the Fortune Home Office property and other properties owned by Members of the Obligated Group.
Expected Closing Date*:	October 17, 2024.
Conduit Transaction:	The Bonds are special, limited obligations payable solely from payments made by the Company 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 the payment to be made pursuant to the Bonds.

*Please note that Expected Maturity and Expected Closing Date are subject to change.

Financing Structure

The Bonds are being issued pursuant to an Indenture of Trust, to be dated as of October 1, 2024. The Underwriter for the Bonds will be Stifel, Nicolaus, & Company, Incorporated. The Bonds will be secured by and payable from payments made by Borrower under the Loan Agreement. The Bonds will be marketed through a Limited Offering Memorandum and sold as a limited public offering and pursuant to a Bond Purchase Agreement. The Facilities will be leased to the Lessee based on certain lease agreements that each will be dated as of October 1, 2024, by and between the Borrower and the Lessee. The Lessee will make payments of Rent under the Series 2024 Leases from revenues derived solely from the related schools. The Facility is located at the 2890 Gateway Oaks Drive, Sacramento, California 95833.

The Bonds are being issued as fully registered bonds in the name of Cede & Co., as nominee for The Depository Trust Company of New York (“DTC”) in book-entry-only form in initial minimum denominations of \$250,000 and any integral multiple of \$5,000 in excess thereof.

The Bonds can be offered and sold only to qualified institutional buyers within the meanings of S.E.C. Rule 144A of the Securities Act of 1933 (“QIBs”) or accredited investors within the meaning of the Code of Federal Regulations, Section 230.501(a). The Bonds of a Series may be exchanged at the principal corporate office of the Trustee for a like aggregate principal amount of the Bonds of the same Series and maturity of other Authorized Denominations. The Bonds are intended to be offered to all Accredited Investors under Section 230.501(a), not just Institutional AI Investors. The Borrower therefore requests that the IBank Board waive the requirement under the Policies that the unrated or rated at a lower than standard investment grade Bonds (the “Minimum Rating Policy”) may only be sold to Accredited Investors that are Institutional Accredited Investors. The Borrower also requests that the IBank Board adopt CSFA’s Debt Issuance Guidelines for the IBank’s issuance of Series 2024C and 2024D so that all Series 2024 may be marketed consistently. ~~The Borrower also requests that the IBank Board waive the requirement under the Policies for subsequent transferees to sign a “sophisticated investor” letter in the event the Minimum Rating Policy is not satisfied. This offering structure is consistent with the CSFA’s policies and was discussed in advance with the State Treasurer’s Office.~~

The Bonds will be issued concurrently and marketed together with CSFA Bonds for the Borrower. The CSFA Bonds are expected to be designated as the Series 2024A and the Series 2024B (Taxable) and will be issued pursuant to a separate Indenture, also with Wilmington Trust, and loaned to the Borrower pursuant to a loan agreement between CSFA and the Borrower (the “CSFA Loan Agreement”). IBank Bonds are expected to be designated as the Series 2024C and the Series 2024D (Taxable) and loaned to the Borrower pursuant to a loan agreement between IBank and the Borrower (the “IBank Loan Agreement”). The Series 2024C & Series 2024D Bonds will be secured on a parity basis with the Series 2024A and the Series 2024B Bonds, as well as the 2021 Loan. The 2021 Loan was secured by Obligation No. 1, issued by the Borrower under the Master Trust Indenture, dated as of October 1, 2021 (the “Master Indenture”). The obligations of the Borrower under the CSFA Loan Agreement and the IBank Loan Agreement will be secured by Obligation No. 2 and Obligation No. 3, respectively, which, together with Obligation No. 1, shall be parity obligations issued under the Master Indenture.

The 2024 Bonds of each Series and their interest will be paid solely from certain revenues and income received by the related issuer pursuant to the related Loan Agreement, as assigned to the Bond Trustee pursuant to the related Indenture, the intercepts, and the related Series 2024 Obligation issued by the Borrower in an amount equal to the principal amount of the Bonds issued by such issuer pursuant to the Master Indenture and a Supplemental Master Indenture relating to each such Series 2024 Obligation, dated as of October 1, 2024, each by and between the Borrower, as representative of the Obligated Group, and Wilmington Trust, National Association, as Master Trustee. IBank will not be party to the Supplemental Master Indenture under which Obligation No. 3 will be issued.

The Borrower was formed for charitable purposes, to assist Fortune School and its affiliates and is currently the sole Member of the Obligated Group.

The CSFA statute authorizes the issuance of revenue bonds for the financing of charter school facilities. Because the Fortune Home Office supports operations other than Fortune's charter operations, a small IBank series accompanying the CSFA Bonds is necessary. The CSFA Bonds and IBank Bonds will be marketed pursuant to a combined Limited Offering Memorandum and sold pursuant to the same terms and conditions. The CSFA Bonds and the IBank Bonds will be parity obligations of the Borrower, and the CSFA Loan Agreement and the IBank Loan Agreement will be secured by parity obligations of the Obligated Group issued under the Master Indenture

As referenced above, in 2021, EFF made a loan to Fortune in the aggregate principal amount of \$6,764,111.47 through CSFA to acquire facilities for WLCP and EWCP. The Home Office facility (financed by IBank Bonds) and four additional schools (financed by CSFA Bonds) will be added as Obligated Group Schools, and the Bonds will be secured by an Obligation of the Obligated Group created under the 2021 Master Indenture.

The Borrower will enter into a Deed of Trust encumbering its fee simple interest in the Fortune Home Office property, and a Security Agreement encumbering its interest in the Fortune Home Office. Additionally, a reserve account will be established under the Indenture securing the Bonds. The Borrower will lease the Fortune Home Office to Fortune School, as the lessee, and Fortune School will be required to maintain certain financial covenants under such lease agreement.

The Bonds will be subject to optional redemption.

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.

PUBLIC BENEFITS

The Project Site Fortune intends to acquire will serve as the central office for Fortune's charter school, preschool, and higher education operations. Additionally, a portion of the facility is used as classroom space for Fortune's graduate program.

The Project will allow Fortune to expand their graduate program offerings. The Project is expected to create additional 10 – 15 full time and/or part time jobs within Fortune in future once the space becomes available. The Fortune's graduate program will in turn help to expand the pipeline of diverse teachers in California.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required? Yes obtained	If Yes, Describe:
TEFRA	
Date of TEFRA Publication: 8/19/2024	Publications: IBank Website, https://ibank.ca.gov
Date of TEFRA Hearing: 8/27/2024	Oral/Written Comment: No, If yes explain: None
ELIGIBILITY REVIEW	
Applicants meets all the IBank eligibility criteria? Yes or No Yes	<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 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? N/A	Certificate Number: _____ Date: _____

RECOMMENDATION

Staff recommends approval of Resolution 24-13 authorizing the issuance of conduit Tax-exempt and/or Taxable Fixed Rate Bonds in an amount not to exceed \$12,000,000 for the benefit of Fortune Facilities LLC.

APPENDIX A: GOVERNANCE AND MANAGEMENT

BOARD MEMBERS	
Joette Spencer-Campbell, Member	Position: Founding Member Affiliated Company: Concerned African American Parents Alliance, Sacramento, CA
Bertha Gorman, Member	Position: Former Associate Secretary Affiliated Company: California Health & Human Services, Sacramento, CA
Scott Loehr, Member	Position: Superintendent Affiliated Company: Center Unified School District Sacramento, CA
Carolyn Mullins, Member	Position: Executive Director Affiliated Company: AT&T – Human Resources Sacramento, CA
Eleanor Brown, Member	Position: Former President Affiliated Company: Sacramento County Board of Education, Sacramento, CA

OFFICERS	
Margaret Fortune	President/Chief Executive Officer
Bonnie Bensen	Chief Financial Officer
Michelle Grace	Chief Operating Officer

APPENDIX B: PROJECT PHOTOS

2890 Gateway Oaks Drive, Sacramento, CA 95833

