

MEMORANDUM

Staff Summary Item No. 6

Date: December 6, 2019

To: Members of the California School Finance Authority

From: Katrina Johantgen, Executive Director

RE: Resolution No. 19-37 Delegating Certain Powers and Authorizing Certain Actions Related to the Remarketing of its Charter School Revenue Bonds (Alliance Alice M. Baxter College-Ready High School Project) Series 2014A (Taxable Qualified Zone Academy Bonds - Tax Credits) and its Subordinate Charter School Revenue Bonds (Alliance Alice M. Baxter College-Ready High School Project) Series 2014B

Resolution 19-37 authorizes the execution and delivery of a First Supplemental Indenture, to, among other things, amend the payment schedules for the Series 2014 Bonds, amend the interest rates on the Series 2014 Bonds, revise the Debt Service Reserve Fund Requirement, if applicable, change the Conversion Date, waive notice provisions and certain requirements in connection with the remarketing of the Series 2014 Bonds, and appoint Robert W. Baird & Co. Incorporated and GVC Capital, LLC, as co-remarketing agents for the Series 2014 Bonds. Resolution 19-37 also authorizes related amendments to the Loan Agreement and Subordinate Loan Agreement in connection with the Series 2014 Bonds.

Background: In response to changes in California law affecting charter schools and entities that operate charter schools, changes which will become effective January 1, 2020, Alliance, and the 25 California nonprofit public benefit corporations affiliated with Alliance that operate public charter schools (including Alliance Alice M. Baxter College-Ready High School) proposed to merge, effective January 1, 2020, into a single California 501(c)(3) nonprofit public benefit corporation to be known as Alliance College-Ready Public Schools.

An approval from the California School Finance Authority (CSFA) Board will not be necessary for the merger-related bond document changes that are governed by CSFA's Resolution No. 18-25, which delegates authority over certain matters to the Executive Director. However, certain modifications to the bond documents for two Alliance transactions, including the bond financings for Alliance Alice M. Baxter College-Ready High School (Alliance Baxter), do not fall under this general delegation resolution, as they are modifications separate from the above-described merger, and these changes to the financing are occurring earlier than anticipated in the original bond documents. Because these proposed amendments to the transaction structure modify the configuration contemplated in the original documents, these requested documents were not previously approved by the CSFA Board, and thus now require Board approval as matters of first impression.

In 2014, CSFA issued two series of Qualified Zone Academy Bonds (QZABs) for the benefit of Alliance Baxter, \$5,000,000 Series 2014A (Taxable QZABs) and \$3,975,000 Series 2014B Subordinate Tax Exempt Bonds. The initial loan term for the Alliance Baxter QZABs is coming due this month (December) and Alliance wanted to extend the present loan structure for five additional years so the school could stabilize and grow its enrollment to projections prior to a long-term capital market solution.

Currently the interest rate on the Alliance Baxter QZABs is 5.74% and the rate on the Subordinate Series B Bond is 8.75%. Alliance would like to extend the initial term of the Series A QZAB Bonds for five additional years. Alliance would also like to extend the initial term of the Series B Subordinate Bonds for five additional years. Both loans are current and performing as agreed. Modifications will be made with Bond Holder consent, which Alliance will obtain for both Series A and Series B pending credit approvals, which are in process. For the Series A QZABs, the scheduled principal payments are made quarterly, \$3,813 per quarter until June 15, 2020, when the scheduled payment is due to increase to \$57,739. The intent is to keep the scheduled principal payment at \$3,813 through December 15, 2022. The increment not paid each quarter, \$53,926, would be added to the scheduled principal payment due on December 15, 2025. These changes were reviewed with Tax Counsel, Ballard Spahr, who determined the changes to the principal amortization can be made without causing a Reissuance; with principal payments not extended more than the lesser of five years or ½ the remaining term of the bonds.

The current lenders have all given their initial consent to the restructuring and the Loan Modifications. The final maturity date of the Series A and Series B Bonds will not change. Security and credit enhancement from Alliance and Alliance Guaranty remains same. The two senior lenders going forward will be Non-Profit Finance Fund (NFF) and Genesis LA. Genesis LA will continue to have roughly \$1 million; NFF will have the balance of the senior loan amount – roughly \$3,500,000. Lender SKS will continue to carry a nominal balance at \$500,000. The two smaller lenders, The East Los Angeles Community Union (TELACU) and Los Angeles Community Development Commission (LA CDC) will have their loans assumed by NFF.

For the Alliance Baxter Series B Tax Exempt Subordinate Bond, the final term of bonds will stay the same. For Series B the interest rate would be reduced 100 bps to 7.75%. Scheduled principal payments on Series B will be modified. Credit provisions, Alliance management fee subordination and guaranty remain in place. The Loan Agreement will also need SB 126 modifications. The Tax Credits on the Series A Bonds were stripped and sold to the Series B holder, as such provisions will remain same. The Series B Bonds will be considered Reissued and a new 8038 will be issued as consequence.

Alliance will need the CSFA Board to execute amendments to the Indenture and the Loan Agreement and consent to amendments to the Lease Agreements, including any required changes for SB 126. Additionally, CSFA will need to execute various closing certificates and tax certificates.

The Alliance Board, at their October 17, 2019 meeting, authorized the Finance and Facilities Committee to approve refinancing transactions for Alliance Bloomfield and

Alliance Baxter. The Committee has reviewed and is in support of both transactions. RW Baird will serve as co-remarketing agent with GVC Capital, LLC.

Recommendation: Staff recommends members of the California School Finance Authority Board adopt Resolution 19-37 delegating certain powers and authorizing certain actions related to the remarketing of its Charter School Revenue Bonds (Alliance Alice M. Baxter College-Ready High School Project) Series 2014A (Taxable Qualified Zone Academy Bonds - Tax Credits) and its Subordinate Charter School Revenue Bonds (Alliance Alice M. Baxter College-Ready High School Project) Series 2014B.