

MEMORANDUM

Date: March 8, 2021

Staff Summary No. 2

To: Members, California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Re: Resolution 21 – 06 –Authorizing the addition of a borrower to join the pooled financing approved at the California School Finance Authority’s Board Meeting on February 25, 2021 (Resolution # 21-04) that will be issued as one or more series of Revenue Notes with the additional amount not to exceed \$400,000, as part of a to Finance Working Capital for Los Angeles College Prep Academy located in Los Angeles County. (Action Item)

I. Background

In order to offset the fiscal impact of COVID-19, the State’s 2020-21 Adopted Budget deferred \$12.9 billion in aid to all local educational agencies, including California charter schools, to be paid in Fiscal Years 2020-21 to 2021-22. In response, the Charter School Advances on State Aid Payments (ASAP) Program was created to provide charter schools with a streamlined, secure and simple process that minimizes the impact of the deferrals on their operations by creating a new financing program to advance fund the deferrals scheduled to begin in February 2021.

The State’s Education Omnibus Budget Trailer Bill -- SB 98 (Chapter 24, Statutes of 2020) provides the statutory changes necessary to enact the LEA statutory provisions of the Budget Act of 2020. Specifically, 14041.6 (h)(i)(1) (A-D) specifies in the table below that warrants for the principal apportionments denoted as the Deferral Month shall instead be drawn in the Deferral Amounts and paid in the Deferral Payment Months.

The following table shows Deferrals for K-12 School Districts, including charter schools, for illustrative purposes.

Deferral Month	Deferral Amount	Deferral Payment Month
February 2021 (P-1)	\$1,540,303,000	Nov-21
March 2021 (P-1)	\$2,375,308,000	Oct-21
April 2021 (P-1)	\$2,375,308,000	Sep-21
May 2021 (P-1)	\$2,375,308,000	Aug-21
June 2021 (P-2)	\$4,230,000,000 ¹	Jul-21

The California School Finance Authority (Authority) will issue the Notes that will provide charter schools with a cost-effective way to preserve operations by issuing cross-fiscal year notes repaid from the direct

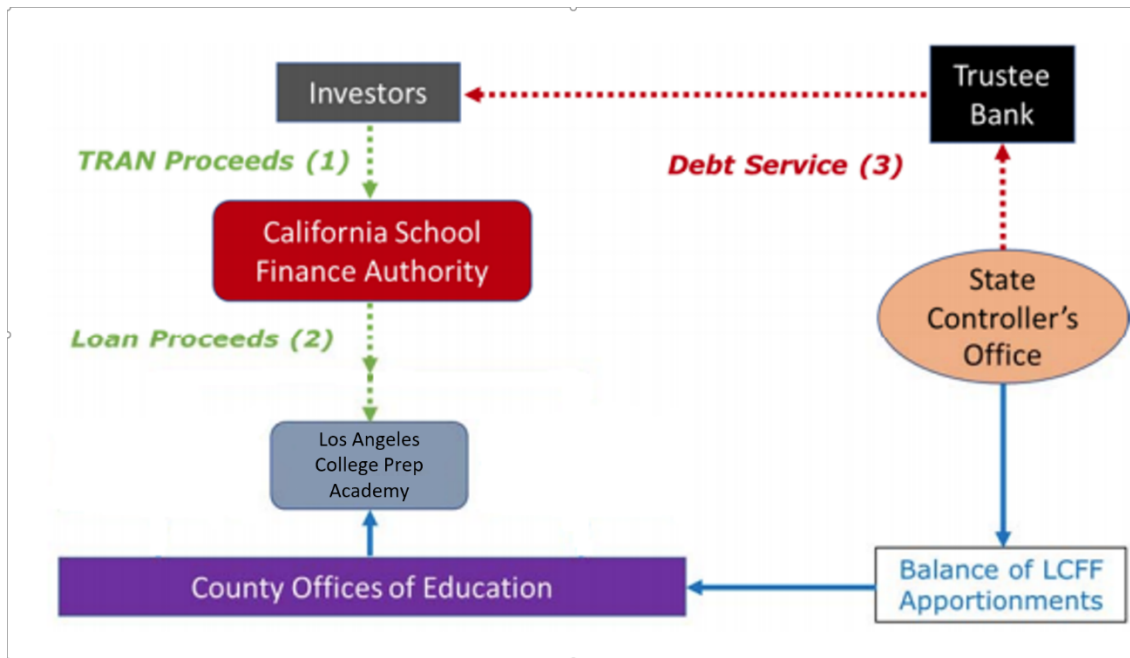
¹ Estimate based on prior year

remittance to the Note trustee of state apportionments that have been intercepted (the Deferral Amounts) in the amounts specified in the intercept notices.

II. Plan of Finance and Financial Structure

The financing structure will make use of CSFA’s authority to issue revenue anticipation notes (RANs) to investors and make loans to charter schools for working capital purposes.

- As security for the RANs, Los Angeles College Prep Academy will enter into a Loan Agreement with the Authority at closing in exchange for the proceeds of the RANs.
- The Authority will direct the Note Trustee to collect on all Loans through payment in full of the RANs on the Maturity Date.
- The RANs will be limited obligations of the Authority payable only from (i) all monies received by the Note Trustee as loan repayments under the RANs, which monies will be intercepted by the State Controller under the terms of a Memorandum of Understanding and paid directly to the Note Trustee for credit for each charter school; and (ii) all income derived from the investment of any money in any fund or account established pursuant to the Indenture.
- Pursuant to its statutory intercept authority, the State Controller will intercept State Principal Apportionments to charter schools in the Deferral Amounts and transfer those payments directly to the Note Trustee to pay set-asides and/or debt service due on the RANs. The amounts intercepted shall be equal to the obligations incurred by Los Angeles College Prep Academy, plus interest.



III. Security and Source of Payment

Proposition 98 establishes a minimum annual funding level for K-14 education pursuant to a set of formulas (the Prop 98 Guarantee). This funding, along with payment to universities, has the highest level of payment priority pursuant to the State Constitution.

- The Notes are secured by the State’s payment of the FY 2020-21 Deferral Payments.

- Existing law requires the State Controller to draw warrants on the State Treasury throughout each year in specified amounts for purposes of apportioning funding to LEAs. The 2020 Budget Act and Education Trailer Bill (the 2020 Budget Acts) signed by the Governor on June 29 and September 18, 2020, require the warrants scheduled to be drawn in the Deferral Months to instead be drawn and paid in the Deferral Payment Months. The warrants are payable from all available General Fund monies, including legally borrowable funds.
- The 2020 Budget Act specifies the amounts of the deferrals and creates the payment schedule for the payment of the warrants. The payment of the warrants is ministerial and carries the same priority as a Proposition 98 Guarantee. No additional action by the Legislature or the Governor is required to cause these payments to be made.
- On the Deferral Payment dates, the State Controller will intercept the Deferral Payment amounts and send these amounts to the Note Trustee via ACH (Automated Clearing House) transaction, at which point the funds will be available exclusively for the Note holders as described in the Note Documents.

IV. Credit Enhancement/Letters of Credit for the Pooled Financing

The Authority will deposit, at Closing, an amount equal to \$10 million (the Grant-Funded Reserve Fund Deposit) into a Reserve Account (the Reserve Account) established under the Indenture. The Grant-Funded Reserve Fund Deposit represents a portion of the grant received by the Authority (the DOE Grant) from the United States Department of Education (the DOE), provided for the purpose of enhancing the credit of obligations of charter schools to provide facilities for enrolled students. Pursuant to a waiver request by the Authority, the DOE approved the use of a portion of the DOE Grant equal to the Grant-Funded Reserve Fund Deposit to be used as a reserve for the Borrowers who will use their Loan Amounts (as defined below) for facilities expenses, *i.e.*, Borrowers whose Loan Agreements are funded with the proceeds of the Series A Notes (the Series A Borrowers). The Grant-Funded Reserve Fund Deposit secures the Loan Repayments of only the Series A Borrowers. The Authority will also deposit, at Closing, an estimated \$9.5 million (the Credit Enhancement Fee Deposit) into a Credit Enhancement Fee Fund established under the Indenture, representing contributions from each of the Borrowers from the net proceeds of sale of the respective series of Notes.

The Authority will enter into separate Reimbursement Agreements for each sub-series of Notes (each, a Reimbursement Agreement) with each of Citibank (Citibank), and Royal Bank of Canada (RBC) under which Citibank and RBC, respectively, have agreed to issue their irrevocable direct-pay letters of credit to secure the Notes (the Letters of Credit). The Citibank Letters of Credit will be issued in amounts equal to the principal and interest due on the Series A-1 Notes and Series B-1 Notes. The RBC Letters of Credit will be issued in amounts equal to the principal and interest due on the Series A-2 Notes and Series B-2 Notes.

V. Note Issuances / Sources and Uses / Cost of Issuance

The Authority anticipates issuing notes later in March. Each series is highlighted below and amounts are provided as preliminary as of the draft of this staff summary.

Sources and Uses

- **A Sources and Use table will be provided under separat cover**
- **A Cost of Items table will be provided unders separate cover**

VI. Financing Team

The following firms have been engaged to serve on the ASAP Program Notes financing:

1. Municipal Advisor: Montague DeRose and Associates, LLC
2. Joint Senior Managing Underwriters: RBC Capital Markets, LLC and Citigroup Global Markets Inc.
3. Note Counsel: Orrick, Herrington, and Sutcliffe LLP
4. Disclosure Counsel: Nixon Peabody LLP
5. Trustee / Paying Agent: US Bank Global Corporate Trust Services

VII. Ratings

Moody's Investors Service (Moody's) is expected to assign P-1 ratings to the Notes based on the Letters of Credit Banks' (Citibank and RBC) short-term credit ratings.

VIII. Legal Documents Previously Approved

The following relevant legal documents were prepared and presented as Exhibits A-F in the package accompanying Resolution # 21-04, previously approved by the California School Finance Authority's Board on February 25, 2021:

- a) Indenture relating to the Notes (the Indenture), by and between the Authority and U.S. Bank National Association, as trustee (the Trustee);
- b) Loan Agreements relating to the Notes (the Loan Agreements), each between the Authority and a Borrower;
- c) Note Purchase Agreement relating to the Notes (the Note Purchase Agreement), among the Authority, the Treasurer, as agent for sale on behalf of the Authority, and RBC Capital Markets, LLC, as representative (the Representative), on behalf of itself and Citigroup Global Markets Inc. (together, the Underwriters);
- d) Reimbursement Agreements relating to the Notes (the Reimbursement Agreements), each between the Authority and a Letter of Credit Bank;
- e) Memorandum of Understanding relating to the Notes (the MOU) by and among the California State Controller's Office, the California Department of Education, and the Authority; and
- f) Preliminary Official Statement relating to the Notes (the Preliminary Official Statement).
- g)

IX. Staff Recommendation

Staff recommends approval of Resolution 21-06, authorizing the addition of a borrower to join the pooled financing approved at the California School Finance Authority's Board Meeting on February 25, 2021 (Resolution # 21-04) that will be issued as one or more series of Revenue Notes with the additional amount not to exceed \$400,000, as part of a to Finance Working Capital for Los Angeles College Prep Academy located in Los Angeles County.