

\$8,500,000*
CALIFORNIA SCHOOL FINANCE AUTHORITY
EDUCATIONAL FACILITY TAXABLE LOAN
(REX AND MARGARET FORTUNE SCHOOL OF EDUCATION)
SERIES 2021
ITEM #5 - RESOLUTION 21-24

STAFF SUMMARY

EXECUTIVE SUMMARY

Applicant/Borrower:	Fortune Facilities LLC	Par Amount Requested:	Not-to-Exceed * \$8,500,000
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Financing Term: Up to 40 years	Interest Rate: Not to exceed 5.00%
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Applicant Description: Fortune Facilities LLC, a California limited liability company whose sole member is Rex and Margaret Fortune School of Education (Fortune), a California nonprofit public benefit corporation described under section 501(c)(3) of the Internal Revenue Code. Fortune Facilities LLC was formed to support Fortune.

Type of Financing: Educational Facility Taxable Loan

Project User:	Rex and Margaret Fortune School of Education	County Served:	Sacramento County
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District in Which Project is Located:	Sacramento City Unified School District	Charter Authorizer:	Sacramento County of Board of Education
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Project Description: Finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, and/or equipping of certain educational facilities.

Project Sites: 3300 Stockton Blvd., Sacramento, CA 95820; 4545 9th Avenue, Sacramento, CA 95820

Financing Team:		Financing Details:	
Bond Counsel:	N/A	Type of Issue:	Educational Facility Taxable Loan (Private Placement)
Lender:	Equitable Facilities Fund, Inc.	Tax Status:	Taxable
Lender's Counsel:	Orrick, Herrington & Sutcliffe LLP	Maturity:	Up to 40 years
Borrower's Counsel:	Musick, Peeler & Garrett LLP	Credit Enhancement:	No
Issuer's Counsel:	Attorney General's Office	Credit Rating:	Unrated
Issuer:	California School Finance Authority	Fees:	See Costs of Issuance Table
Trustee:	Wilmington Trust, National Association		

CSFA Analyst: Elizabeth Mendez, Michael Pack

Date of CSFA Board Meeting: September 30, 2021	Resolution Number: 21-24
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Staff Recommendation: Staff recommends the California School Finance Authority Board approve Resolution Number 21-24 authorizing an Educational Facility Taxable Loan in an amount not to exceed \$8,500,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, and/or equipping of certain educational facilities located in Sacramento County for use by Fortune.

BACKGROUND AND HISTORY

Rex and Margaret Fortune School of Education (Fortune) is the parent organization for all Fortune schools located in Sacramento and San Bernardino, California. Fortune currently operates eight schools across Sacramento County and one school in San Bernardino County, educating over 2,293 students, of which 82% qualify for free or reduced lunch.

In 2010, Fortune was approved by the San Bernardino Unified School District (SBUSD) to operate one school in San Bernardino. In 2011, Fortune also received approval for a countywide charter by the Sacramento County Board of Education (SCOE) to operate five schools in Sacramento County. When the charter was renewed it expanded to nine schools. As of fiscal year (FY) 2021, Fortune is currently serving TK-12 students in eight schools and expects to add its ninth school in Sacramento in 2023, bringing the total network-wide enrollment to approximately 3,040 student. Both charters were recently renewed for an additional five years; SCOE through June 30, 2026 and SBUSD through June 30, 2025.

Williams Lee College Prep (WLCP) and Ephraim Williams College Prep Middle School (EWCP), on behalf of Fortune, currently lease the Stockton Blvd. facility from TA Sacramento 3300 SB LP, a special purpose LLC of Turner Impact Capital. Turner Impact Capital is a social impact investment fund specializing in real estate transactions in education, housing, and health care spaces, founded by former Canyon Partners co-founder Bobby Turner.

WLCP was founded in 2012 in Sacramento County, and serves a 25% Hispanic and 66% African American population with 76% of students eligible for Free and Reduced Price Meals (FRPM) and 5% English Language Learners (ELL). While EWCP was founded in 2014, and serves a 33% Hispanic and 59% African American population with 72% eligible for FRPM and 8% are designated ELL.

The Equitable Facilities Fund, Inc. (EFF) 2021 Loan transaction will establish a Master Trust Indenture (Indenture) for future Fortune-EFF transactions. The financing for WLCP and EWCP will be completed pursuant to that Indenture, and the landlord entity, 3300 SB LP, will become a member of the obligated group created thereby.

Fortune Financing Obligations		
School Full Name	Abbreviation	EFF Loan
1. William Lee College Prep	WLCP	2021 Loan
2. Ephraim Williams College Prep Middle School	EWCP	2021 Loan

Current enrollment projections for William Lee College Prep include:

William Lee College Prep					
Grade	FY21	FY22	FY23	FY24	FY25
PK-5	286	310	310	310	310
Total:	286	310	310	310	310

Current enrollment projections for Ephraim Williams College Prep Middle School include:

Ephraim Williams College Prep Middle School					
Grade	FY21	FY22	FY23	FY24	FY25
6-8	180	180	180	180	180
Total:	180	180	180	180	180

The projected Fortune enrollment growth, which is minimal, is attributed to grade capacity, and some minor additional recruitment. As this is a secured loan between Fortune and EFF, EFF has done its own due diligence as it relates to the enrollment projections for WLCP and EWCP, and, between the projections themselves and the security of the obligated group, notes no concerns.

Financial projections for this loan are included as Appendix A. Fortune/WLCP and EWCP leadership are included as Appendix B.

PROJECT DESCRIPTION

The proceeds of the loan will be used to (i) finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing and/or equipping of certain educational facilities and office space located at 3300 Stockton Blvd, Sacramento, CA 95820 and 4545 9th Avenue, Sacramento, CA 95820; and (ii) pay certain costs of delivery of the loan.

Bond Proceeds				
Site	Landlord	Location	Purpose	Amount
WLCP and EWCP	Fortune Facilities, LLC	3300 Stockton Blvd. Sacramento, CA	Purchase	\$8,500,000
Total Estimated Project Costs (Including Fortune Equity Contribution)				\$8,500,000

The project includes two multi-story buildings, approximately 32,500 square feet built in 1924 on a campus of an estimated 2.0 acres. It was previously used as office space and includes 55 parking spaces, a sports field, a playground area, and outdoor space to congregate. Fortune has leased the facility for WLCP and EWCP from the current owner since 2017, when it entered into a lease-purchase agreement with TA Sacramento 3300 SB LP. The project will not include any tenant improvements.

Fortune Facilities LLC (FFL) was formed in 2021 and serves as the borrower. Its purpose is to acquire, develop, own and lease property in support of the programs of Fortune Schools and for charitable purposes within the meaning of Section 501(c)(3) of the Code. The Borrower operates exclusively to support Fortune. Fortune is the sole member of the Borrower.

EFF / Orrick, Herrington & Sutcliffe LLP Relationship

EFF is a Delaware-based nonstock nonprofit corporation that has 501(c)(3) tax-exempt status as a public charity. EFF was initially funded by philanthropic contributions from the Walton Family Foundation, and is organized to make low-cost, long-term, fixed rate loans to charter schools for facilities. The EFF program is set up as a revolving loan fund, so that as existing school loans are repaid, the loan repayment revenues can be used to make new loans. In addition, EFF has obtained, and will continue to seek, capital market financing in the form of tax-exempt bonds to leverage the revenue streams from their pool of school loans. Depending on the locations of the projects financed

by the loans over time, EFF will issue bonds using various conduit issuers in various jurisdictions, and, as it did in connection with its first issuance of bonds in 2019 and its second issuance of bonds in 2020, possibly use a national conduit issuer that has authority to finance projects in multiple jurisdictions. EFF will use the proceeds of such bonds to reimburse itself for loans it previously originated, in order to make additional loans.

Orrick, Herrington & Sutcliffe LLP (Orrick) represents EFF, and acts as its primary outside counsel on all lending and financing transactions nationally. Orrick's relationship with EFF is managed by Eugene Clark-Herrera.

In the proposed loan to the Borrower, structured as a conduit loan through CSFA, Orrick would act as EFF's counsel. Although Orrick would not have an attorney-client relationship with CSFA on the Fortune transaction, Orrick would perform most, if not all, of the tasks ordinarily performed in other transactions when acting as bond counsel to CSFA. While these tasks are associated with the role of "bond counsel", there is no legal or ethical requirement that the firm performing these tasks be retained by the conduit issuer. In the WLCP and EWCP transaction, EFF and Fortune have agreed that Orrick should perform these tasks because of its prior experience in doing so on similar transactions. The only difference on this transaction would be that Orrick's client relationship is not with CSFA, but instead with EFF. Therefore, in this transaction, the Attorney General's Office will represent CSFA (as issuer's counsel), without need for an additional law firm to act as CSFA's outside bond counsel.

The financing will be structured as a tri-party loan, with EFF as the lender, CSFA as the conduit loan facilitator, and Fortune as the borrower. As with the previous loans through EFF, Caliber and Equitas, the intercept will lower the costs for Fortune vs. a conventionally-structured loan.

FINANCING

The facilities acquired with the proceeds of the Loan will be leased by FFL (Landlord) to Rex and Fortune (Lessee), pursuant to a lease by and between the Lessee and the Landlord. The Facilities will be used by the Lessee to operate WLCP and EWCP.

Security and Source of Payment

The Loan will be secured by an obligation issued pursuant to a Master Indenture that establishes an Obligated Group, including a pledge of rental revenues and mortgages on all related property interests naming Master Trustee as mortgagee. The lease with Lessee will be subject to Intercept. Lessee is required under the lease to maintain certain financial covenants. As additional security, and in connection with the issuance of the Loan, Fortune will provide instructions to the State Controller's Office to make an apportionment to EFF. (Lender) with respect to WLCP and EWCP in the amounts, and on the dates provided, in a written notice sufficient in the aggregate to repay the Loan and pay necessary and incidental costs (Intercept). Funds received by the Lender pursuant to such Intercept will be applied solely for payment of debt service on the Loan. Under the laws of the State of California, no party, including Landlord, the Lessee, or any of their respective creditors will have any claim to the money apportioned or to be apportioned to the Lender by the State Controller's Office pursuant to the Intercept.

Note on Rating

The current 2021 Fortune-EFF loan is unrated. Part of EFF's goal as a mission-related lender is to provide financing for schools that are not yet rated, but "on the path" to seeking a rating. Fortune will likely be seeking a rating in 2023.

Preliminary Sources and Uses and Preliminary Costs of Issuance

Below are the preliminary estimated sources and uses, and detailed information about the expected costs of issuance for board consideration. Please note these figures are subject to change between the time the Board packets are distributed and the time the Board meets, and are further subject to final pricing. Members will be provided updated figures should significant changes occur before the Board meeting date.

Sources and Uses

Sources:		2021 Taxable Loan
Loan Proceeds:		
Par Amount		\$6,944,615.00
Bond Premium		\$1,555,385.00
Total:		\$8,500,000.00
Uses:		2021 Taxable Loan
Project Fund Deposits:		
Stockton Blvd Acquisition		\$8,000,000.00
Delivery Date Expenses:		
Cost of Issuance		\$300,000.00*
Other Uses of Funds		
Contingency		\$200,000.00
Total:		\$8,500,000.00

Total Costs of Issuance*

Expense	Amount
Lender's Counsel Fee	\$110,000
Borrower's Counsel Fee	\$60,000
CSFA Issuance Fee	\$10,417
CSFA 1st Admin Fee	\$1,042
Agent for Sale Fee	\$6,000
CDLAC Fee	\$5,000
Issuer's Counsel (AG)	\$6,000
Trustee & Trustee's Counsel Fee	\$5,000
Title Insurance/Escrow	\$20,000
Appraiser Fee	\$4,000
Contingency	\$68,041
Other: BondLink Alternative	\$4,500
Total	\$300,000

**Estimates based on a not-to-exceed Par Amount of \$8,500,000.*

SALES RESTRICTIONS

The following sales restrictions will apply. The Authority's sales restrictions can be viewed at: <http://treasurer.ca.gov/csfa/financings/guidelines.pdf>.

The Loan will be non-transferable except between EFF and its affiliated entity, Equitable School Revolving Fund, LLC (ESRF), and in the case of default, to QIBs. The following restrictions will apply:

1. The Note will not be broken into smaller denominations;
2. The Note will be privately placed with EFF and/or ESRF;
3. EFF and ESRF will each be required to execute an Investor Letter;
4. Subsequent transfers of the Note will be limited to transfers between EFF and ESRF or to Qualified Institutional Buyers in the case of a default;
5. Sales restrictions will be conspicuously noted on the Note and described in detail in offering materials, if any, as well as included in the Loan documents;
6. Loan repayments will be made via the intercept mechanism outlined in Section 17199.4 of the Education Code.

OTHER PROJECT DATA

Tax Equity and Fiscal Responsibility Act (TEFRA): Not applicable as this is a taxable loan.

Due Diligence Undertaken to Date: The financial, operating and other information concerning the Borrower, the Project and related matters presented in this Staff Summary was provided by the Borrower and Lender. The analysis contained herein was prepared by CSFA Staff for the limited purpose of determining financial feasibility pursuant to Section 17183.5 of the CSFA Act and providing the CSFA Board with information concerning certain aspects of the Project. The review undertaken by CSFA staff, the recommendation of CSFA Staff to the CSFA Board to approve the financing, or any approval by the CSFA Board are not intended to, and did not, include all of the due diligence activities and other investigations necessary or desirable for the purpose of making an investment decision

relating to the making of the financing by the Lender, and should not be relied on by any party for such purpose.

Borrower Financial Data: Fortune Facilities LLC (Borrower) was formed and is operated exclusively to support the Rex and Margaret Fortune School of Education (Fortune). The primary mission of Fortune is (i) to acquire, develop, construct and/or renovate charter school facilities and to lease or sublease such facilities to William Lee College Prep (WLCP) and Ephraim Williams College Prep Middle School (EWCP) for charter school purposes on terms favorable to WLCP and EWCP, all directly or through one or more wholly owned limited liability companies, and (ii) to otherwise provide philanthropic and operational support to WLCP and EWCP. Fortune has received a determination letter from the Internal Revenue Service recognizing it as an entity described in Section 501(c)(3) of the Code.

STAFF RECOMMENDATION

Staff recommends the California School Finance Authority's (CSFA) Board approve Resolution Number 21-24 authorizing the Educational Facility Taxable Loan in an amount not to exceed \$8,500,000 to finance and/or refinance the acquisition, construction, expansion, remodeling, renovation, furnishing, and/or equipping of certain educational facilities located in Sacramento County, California for use by Fortune Facilities LLC.

1. **Applicant / Borrower:** Fortune Facilities LLC
2. **Project:** Lease Purchase to House Two Schools
3. **Amount of Financing:** Not –to- exceed \$8,500,000
4. **Maturity: Up to 40 years**
5. **Repayment/Security:** Lease Payments and Deed of Trust on Real Property
6. **Interest Rate:** Not to exceed 5%
7. **Fees:** \$300,000* is the total Costs of Issuance, based on a not-to-exceed amount of \$8,500,000.
8. **Not an Unconditional Commitment:** The CSFA resolution shall not be construed as unconditional commitment to finance the Project, but rather CSFA's approval pursuant to the resolution conditioned upon entry by CSFA and the Borrower into a loan agreement, in form and substance satisfactory to CSFA and its counsel.
9. **Limited Time:** The Board's approval expires 12 months from the date of its adoption. Thus, CSFA must enter into the loan agreement no later than 12 months from such date. Once the approval has expired, the item must return to the Board for new approval.
10. **Loan Agreement Covenants:** N/A

APPENDIX A: ESTIMATED BUDGET AND ENROLLMENT (PROJECTED)

	FY 2021-2022 Adopted Budget											Sac Charterwide Programs	Fortune Charter	Total
	FSE	HBCP	FS	WLCP	EWCP	ARCP	HMCP	ECHS	FMS	TPCP	New 6-8			
Enrollment:														
Pre-Service	55													55
District Interns	53													53
Masters Program	0													0
ASD Program	1													1
Charter Schools		495	310	310	180	310	405	235	180	210			2,141	2,046
Average Daily Attendance - Projected		261	294	289	165	265	373	215	165	193	0		1,980	2,351
Unduplicated Count		251	241	241	140	241	316	183	140	164	0		1,667	2,018
Unduplicated Count - Percentage		85.69%											77.68%	
Local District Percentage		90.96%											90.47%	
CMO Support %		14.8%	14.0%	14.00%	4.00%	14.00%	14.00%	10.0%	4.00%	12.75%				
Teacher Support %		4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%				
Data & Analytical Support %		0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%				
2021-22														
Revenue	\$2,218,423	\$5,913,148	\$4,263,784	\$4,223,305	\$2,290,071	\$4,124,138	\$5,427,332	\$3,772,622	\$2,484,534	\$3,507,496	\$0	\$0	\$30,103,284	\$38,234,853
Expense	\$2,200,242	\$5,666,520	\$3,993,371	\$3,939,942	\$2,283,055	\$4,071,468	\$5,047,184	\$3,911,814	\$2,056,335	\$3,507,253	\$0	\$0	\$29,353,437	\$37,229,200
Excess (Deficiency)	\$9,181	\$246,628	\$270,413	\$283,363	\$7,016	\$52,670	\$380,148	(\$139,192)	(\$104,801)	\$243	\$0	\$0	\$749,847	\$1,005,653
Projected Beginning Fund Balance	\$1,757,895	\$1,171,245	\$2,182,642	\$1,000,159	(\$836,195)	\$48,474	\$991,221	\$27,665	\$383,378	(\$380,127)	\$0	\$0	\$3,334,622	\$6,263,763
Projected Ending Balance	\$1,766,876	\$1,417,862	\$2,453,056	\$1,283,522	(\$831,163)	\$610,123	\$1,381,359	(\$111,227)	\$276,578	(\$388,879)	\$0	\$0	\$4,084,669	\$7,269,407
Reserve/Ret - Fundraising Balance		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Reserved for Economic Uncertainty		\$253,327	\$152,820	\$105,691	\$87,535	\$137,701	\$204,054	\$137,819	\$87,535	\$109,203	\$0	\$0	\$1,106,229	\$1,389,585
Undesignated	\$1,780,870	\$1,124,035	\$2,290,425	\$1,125,631	(\$918,666)	\$331,422	\$1,157,309	(\$246,809)	\$191,043	(\$998,082)	\$0	\$0	\$2,978,439	\$5,879,861
LCFF Entitlement per ADA	\$11,413	\$0											\$11,174	
2022-23														
Revenue	\$6,013,359	\$4,309,277	\$4,275,078	\$2,342,714	\$4,146,888	\$5,663,575	\$4,400,338	\$2,425,639	\$4,782,714	\$0	\$0	\$0	\$32,440,240	\$38,453,765
Expense	\$5,680,189	\$4,057,816	\$3,917,689	\$2,252,978	\$3,061,890	\$5,134,756	\$4,399,802	\$2,492,275	\$4,349,160	\$0	\$0	\$0	\$30,566,401	\$36,246,091
Excess (Deficiency)	333,170	\$251,461	\$357,389	\$89,736	\$1,084,998	\$1,528,819	\$1,000,536	(\$66,636)	\$433,554	\$0	\$0	\$0	\$1,873,839	\$2,207,674
2023-24														
Revenue	\$9,545,695	\$4,504,232	\$4,425,294	\$2,427,211	\$4,370,999	\$5,061,978	\$4,688,043	\$2,454,603	\$4,861,265	\$2,257,010	\$0	\$0	\$30,002,300	\$42,006,002
Expense	\$5,882,037	\$4,144,965	\$3,957,741	\$2,293,269	\$4,017,421	\$5,370,287	\$4,235,468	\$2,479,054	\$4,411,358	\$2,168,301	\$0	\$0	\$30,181,843	\$39,163,870
Excess (Deficiency)	3,663,658	\$359,267	\$467,553	\$1,133,942	\$353,578	\$691,691	\$1,452,575	(\$24,451)	(\$548,093)	\$88,709	\$0	\$0	\$9,820,457	\$12,842,132

FY 2021-2022 Adopted Budget
Fortune School of Education
Fund 01 (CMO and Higher Education)

	2021-22
<u>Revenue</u>	
Central Administration	\$1,568,023
Sacramento Center	\$515,800
Bay Area Center	\$134,600
TOTAL REVENUE	\$2,218,423
<u>Expenses</u>	
Program Administration	
Central Administration	\$1,881,309
Sacramento Center	\$241,781
Bay Area Center	\$86,151
TOTAL EXPENSES	\$2,209,242
TOTAL REVENUE OVER EXPENSES	\$9,181
Beginning Fund Balance	\$1,757,595
Ending Fund Balance	\$1,766,876

**APPENDIX B:
SCHOOL GOVERNANCE**

Officers

Margaret Fortune	CEO
Michelle Grace	Chief Operating Officer
Bonnie Bensen	Chief Financial Officer

Board of Directors

Eleanor L. Brown	Trustee
Paulette Brown-Hinds	Trustee
Bertha Gaffney Gorman	Trustee
Scott A. Loehr	Trustee
Ollie Waston	Trustee