**M E M O R A N D U M** **Staff Summary No. 10**

**Date**: June 19, 2023

**To:** Members, California School Finance Authority

**From:** Katrina M. Johantgen, Executive Director

**Re:** Resolution 23-28: Amending the Conduit Financing Fee Structure for ESG Bonds

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**Overview:** Section 17180(k) of the California School Finance Authority (Authority) Act states that, "the Authority is authorized to charge and equitably apportion among participating parties its administrative costs and expenses incurred pursuant to this chapter." This self-funding structure allows the Authority to aid in obtaining financing for eligible participating parties without taxing the State's General Fund.

In 2010, as the Authority began issuing conduit bonds, a formal fee schedule for conduit bond issuance for short- and long-term debt financings was formally adopted. The schedule adopted in 2010 was determined to be competitive with those offered by other governmental and non-governmental conduit issuers. Subsequent revisions were made to the schedule in 2012, 2015, 2017, 2020 and 2021. The Authority's current fee structure includes: 1) an application fee; 2) an issuance fee; and 3) annual administration fee. The application fee of $1,500 is non-refundable and covers the cost of vetting the project, financing team, financing structure, and financing application completeness. The issuance fee covers dedicated staff time to review all financing documents, participate in meetings and financing calls, prepare staff summaries for board consideration, etc. Lastly, the annual administration fee covers staff time monitoring outstanding debt, ensuring post issuance compliance, and other reporting requirements.

At our January 28, 2021 meeting, the Authority authorized changes to its existing fee structure for a Social Impact Designation in correlation to the approved bond financing – iLEAD Lancaster and Santa Clarita Valley International (SCVi) with a $5,000 discount to the Issuer Fee and 10% discount to the Annual Administrative Fee. The bifurcated schedule was designed so the Authority's fees for Environmental, Social and Governance (ESG) borrowers remain competitive, and recognize the varying degree of resources needed to review different types of credits.

**Background:** In April 2006, the United Nations adopted the Principles of Responsible Investing (PRI) emphasizing the importance of Environmental, Social, and Corporate Governance (ESG) issues in the long-term investment practices of pension funds, sovereign wealth funds and wealth managers. Included amongst those investment practices is the Social Impact designation on municipal bonds that serve the greater good, specifically underserved populations.

Demand for these bonds has increased with high-net-worth individuals as well as pension funds, who appreciate the investment's societal impact beyond simply the investment's return. Because of the student populations many California charter schools serve, certain charter school bond issuances qualify for the Social Impact designation. The Social Impact designation opens an issuance to a broader range of investment funds, specifically those funds dedicated to ESG. An issuance in 2019 was designated as Social Impact, and while the bonds did not sell to ESG funds, the various funds that purchased the bonds, in some cases, acknowledged part of the purchase decision was attributed to the Social Impact designation. The Social Impact designation requires upfront documentation and subsequent annual attestation by the borrower and underwriter confirming bond proceeds are serving a social good. While there are no strict guidelines, as it is often a self-designation, designation and documentation may include:

- Student Demographics and Familial Demographics

- Disaggregated Curriculum and Assessment
- The Community/Neighborhood the School Serves
- The School's Internal Team
- School Culture

While the Social Impact designation opens an issuance to an additional pool of investors, there is no guarantee said investors will purchase, additionally, depending on the credit, there is no guarantee the Social Impact designation will additively impact the credit even if there is interest from ESG funds. The reality that designation does not translate to reduced rates, paired with upfront and ongoing costs for initial documentation and annual attestation, may dissuade borrowers from pursuing the Social Impact designation.

**Proposed Fee Amendment**: With the approval of this item, the Authority intends to create an adjusted fee schedule specific to financings that pursue the Social Impact designation as well as any potential Environmental or Green Bond designations. Green Bonds finance construction and renovations costs that enhance and expedite environmental outcomes, specifically related to the Leadership in Energy and Environmental Design (LEED) certification. The Social Impact designation is important as a policy goal to both the Authority and the State Treasurer's Office (STO). Those conversations proposed reduction in the Authority's issuance and annual Administrative fees to reflect both the importance of the good work of the designation to the Authority and the STO, and the additional work undertaken by the school and underwriter.

The proposed discount would be a $5,000 reduction in the issuance fee and a 10% reduction in the annual administrative fee. The $5,000 reduction in the issuance fee reflects the additional amount of upfront work being undertaken by the school and financing team relatively late in the financing process. The 10% annual administrative fee reduction reflects the ongoing annual documentation justifying the Social Impact designation.

Please see Exhibit A for newly proposed Fee Structure to be posted to the CSFA website.

**Recommendation:** Staff recommends board approval of Resolution 23-28 – amending the conduit financing fees for ESG Bonds. Specifically, a reduction of $5,000 from the Issuance fee and a reduction of 10% for the annual Administration fee.

**Exhibit A: Current Fee Structure and Proposed Amendment**

| Note Financing | |
|---|---|
| **Fee** | **Amount** |
| Application Fee | $500 |
| Issuance Fee | 0.075% of par amount |
| Annual Administration Fee | Not Applicable |

| Bond/Loan Financings | |
|---|---|
| **Fee** | **Amount** |
| Application Fee | $1,500 |
| Issuance Fee | 0.15% of par amount of bonds issued up to $10,000,000; 0.05% on amounts above $10,000,000 - Maximum Fee of $75,000 per transaction |
| Annual Administration Fee | 0.015% of outstanding principal, minimum $500 |

**Proposed Amendment**

| ESG Bonds | |
|---|---|
| **Fee** | **Amount** |
| Application Fee | $1,500 |
| Issuance Fee | 0.15% of par amount of bonds issued up to $10,000,000; 0.05% on amounts above $10,000,000 - Maximum Fee of $75,000 per transaction<br>*($5,000) flat fee discount* |
| Annual Administration Fee | 0.015% of outstanding principal, minimum $500 *(0.10%) discount* |