

MEMORANDUM

Staff Summary No. 9

Date: July 27, 2023

To: Members, California School Finance Authority

From: Katrina M. Johantgen, Executive Director

Re: Resolution 23-35: Amending the Conduit Financing Fee Structure for Environmental Social Green (ESG) Bonds

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 serve as a conduit issuer and support financing for eligible participating parties without taxing the State’s General Fund.

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. *While the Social Impact designation potentially opens an issuance to an additional pool of investors, there is no guarantee said investors will purchase these bonds. 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.*

Given 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. 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: 1) Student Demographics and Familial Demographic; 2) Disaggregated Curriculum and Assessment; 3) Community/Neighborhood the School Serves; 4) The School’s Internal Team; and 5) School Culture.

Issue: When the Authority began issuing conduit bonds in 2010, a formal fee schedule 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.

Since 2021, the Authority has issued a few financings that were designated as Environmental, Social and Governance (ESG) bonds and therefore were granted a reduction in fees. 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). Given that we have reduced fees on a case-by-case basis, the Authority is formalizing its discounted fee structure for bonds under this designation.

Proposed Fee Amendment: With the approval of this item, the Authority intends to create an adjusted fee schedule (Exhibit A) specific to financings that pursue the Social Impact designation as well as any potential Environmental or Green Bond designations. The proposed reduction in the Authority’s issuance fees for ESG bonds are intended to recognize both the importance of the designation to the Authority and the STO and the additional efforts undertaken by the borrower and underwriter. The proposed discount would be a 0.05% reduction in the issuance fee for bonds with a par amount up to and including \$10 million and a 0.01% reduction in the issuance fee for bonds with a par amount above \$10 million.

An example of the savings for an ESG designated bond deal with a par amount of \$30 million would be:

Standard Issuance Fees		ESG-Designated Issuance Fees	
Par Amount	Fee	Par Amount	Fee
\$ 10,000,000	0.15%	\$ 10,000,000	0.15%
\$ 10,000,000	0.05%	\$ 10,000,000	0.04%
Par Amount	Fee	Par Amount	Fee
\$ 30,000,000	\$ 25,000	\$ 30,000,000	\$ 18,000
			Total Savings:
			\$7,000

This approach provides borrowers significant savings while maintaining sufficient fees for the Authority to carry out its administrative duties. Please see Exhibit A for newly proposed Fee Structure to be posted to the CSFA website.

Recommendation: Staff recommends board approval of Resolution 23-35 – amending the conduit financing fees for ESG Bonds. Specifically, reductions of 0.05% in the issuance fee for bonds issued up to and including \$10 million and 0.01% in the issuance fee for bonds issued above \$10 million.

Exhibit A: Current Fee Structure

Debt Financing	
Fee	Amount
Application Fee	\$1,500
Issuance Fee	0.15% of par amount of bonds issued up to and including \$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-Designated Financings	
Fee	Amount
Application Fee	\$1,500
Issuance Fee	<u>0.10%</u> of par amount of bonds issued up to and including \$10,000,000; <u>0.04%</u> on amounts above \$10,000,000
Annual Administration Fee	0.015% of outstanding principal, minimum \$500