

— The California School Finance Authority (CSFA) Presents: _____

How will CSFA's ASAP Program Help My Charter School Survive the State's Apportionment Deferrals?

— September 17, 2020 | 1:00pm – 2:30pm PT _____



Moderator Katrina Johantgen, California School Finance Authority

Speakers Marc Bauer, Orrick, Herrington & Sutcliffe

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Housekeeping

- **Slides**

Available in the Handouts section of the menu

- **Questions**

Ask throughout the webinar, answers provided during Q&A at the end

- **Captioning**

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California School Finance Authority (CSFA)

- Established in 1985, CSFA is one of 16 boards, commissions, and authorities within the State Treasurer's Office
 - ✓ Chaired by Treasurer Fiona Ma, CPA, with Superintendent Tony Thurmond and Director of Finance Keely Martin-Bosler serving as members
 - ✓ Administers 10 federally- and state-funded financing programs
 - ✓ Has disbursed, through grant and debt programs, over \$4 billion to K-12 schools since 2002
- A governmental entity governed by a three-member board with two statewide elected officials
- Helps California TK-12 school districts, community colleges, county office of education and **charter schools** finance the construction, remodeling, and renovation of projects; acquire property; refinance debt; and secure working capital for cash flow purposes



CSFA as Conduit Bond/Note Issuer

- The CSFA Act (Ed. Code 17170 – 17199.6) provides the Authority with broad statutory authority to issue short- to long-term debt on a stand alone or pooled basis
 - ✓ Intercept Mechanism (Section 17199.4) improves investor security, lowers borrowing costs, ensures timely payments
 - ✓ State Treasurer's Office as Agent for Sale oversees the bond/note pricing process
 - ✓ Attorney General's Office as Issuer's Counsel
 - ✓ Monthly board meetings, with flexibility to hold special meetings
 - ✓ No-Cost TEFRA hearings
- CSFA is mission driven; not transaction driven
 - ✓ Governmental entity – not a third-party joint powers authority
 - ✓ Best practices and bond issuance guidelines
 - ✓ Low issuer and administrative fees
 - ✓ Consistent leadership and top financial advisor support



Conduit Issuance Transaction Highlights

- CSFA has served as conduit bond issuer on behalf of charter schools to improve access to the capital markets for over 10 years
- Since FY 1999, CSFA has issued over \$1.7 billion in short- and long-term debt on behalf of school districts and non-profit borrowers
 - ✓ 93 transactions
 - ✓ 18 working capital note financings totaling almost \$200 million
 - ✓ 75 financings for long-term educational facilities
- Awarded several federal grants for credit enhancement of CSFA charter school financings
- CSFA's low-cost fee structure and revenue intercept mechanism have made it a prominent conduit debt issuer for charter schools throughout the state



Advances on State Aid Payments (ASAP) Program

- The deferral of 36% of State aid will create an unprecedented need for external, short-term borrowing by early 2021 to maintain financial liquidity
- The ASAP Program was designed to offer charter schools and charter management organizations (CMOs) a transparent, lower cost alternative to bank lines of credit and the sale (factoring) of apportionment receivables
- CSFA will issue a pooled TRAN* to investors and use the TRAN proceeds to make loans to charters on the same terms. Charters will use these loans as a cash bridge over the February to November 2021 deferral period
- With CSFA's direction, the charter's deferred apportionments will be accessed directly by the State Controller to automatically repay the loan with no future action required by the school

** The interest received by investors will be exempt from CA State taxes but not federal taxes*



The ASAP Program Financing Team

- The financing team selected by CSFA and the STO have over 30 years of K-14 TRAN expertise and competitive fees

Role	Firm
TRANs Issuer	California School Finance Authority
Issuer's Counsel	Office of the State Attorney General
Agent for Sale	State Treasurer's Office
Municipal Advisor	Montague DeRose and Associates
Note Counsel	Orrick, Herrington & Sutcliffe
Disclosure Counsel	Nixon Peabody
Joint Sr. Managing Underwriters	RBC Capital Markets & Citigroup
Interested State Agencies	DOF, CDE and SCO



Speaker Introductions



**Katrina
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Executive
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**Mike
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Managing
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**Marc
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Partner
Orrick, Herrington
& Sutcliffe



State Aid Deferrals

- 2020-21 state budget includes \$12.9 billion of cash deferrals
- Defers state-funded portion of Principal Apportionment
 - ✓ LCFF state aid
 - ✓ State special education funding (“AB 602”)
 - ✓ EPA and property tax components not deferred, should flow per usual schedule
- June ‘20 Principal Apportionment was deferred
 - ✓ Entire apportionment, \$4.23 billion, including LCFF state aid, Special Education, etc.
 - ✓ Delayed briefly, to July 15th
 - ✓ This June deferral is ongoing in future years unless law is amended



State Aid Deferrals (cont'd)

- “One-time,” spring 2021 Principal Apportionment state aid deferrals:
 - ✓ February to November: \$1.54 billion
 - ✓ March to October: \$2.38 billion
 - ✓ April to September: \$2.38 billion
 - ✓ May to August: \$2.38 billion
- June 2021—ongoing “permanent” deferral of entire state portion of Principal Apportionment
- State could surprise us with changes to size, timing of deferrals
 - ✓ This happened during the Great Recession



FY 2020-21 State Aid Deferrals (as of Sept. 2020)

Month	Usual Monthly Percentage Apportioned	Monthly Percentage Apportioned after Deferrals	Month Deferred Amounts will be Apportioned	Deferred Percentage to be Apportioned
July 2020	5%	5%	--	--
Aug. 2020	5%	5%	--	--
Sept. 2020	9%	9%	--	--
Oct. 2020	9%	9%	--	--
Nov. 2020	9%	9%	--	--
Dec. 2020	9%	9%	--	--
Jan. 2021	9%	9%	--	--
Feb. 2021	9%	4.23%	Nov. 2021	4.77%
Mar. 2021	9%	1.62%	Oct. 2021	7.38%
Apr. 2021	9%	1.62%	Sept. 2021	7.38%
May 2021	9%	1.62%	Aug. 2021	7.38%
June 2021	<u>9%</u>	<u>0.00%</u>	July 2021	<u>9.00%</u>
	100%	64.09%		35.91%



Deferral Exemptions

- Budget trailer bill allows for exemptions
 - ✓ But caps monthly exemptions at \$100 million statewide, may grow to \$300 million
- Important to develop detailed monthly cash flow projections ASAP
 - ✓ Tells you whether you will have a cash flow problem
 - ✓ To be ready when exemption window opens -- first come, first served
 - ✓ Authorizing district, county office must certify your estimates to apply for exemption



Potential Options If Cash Is Short

- Negotiate with creditors to delay payments
 - ✓ Often costly, can damage school/CMO relationship with lenders
- Lines of credit from commercial lenders
 - ✓ Usually low cost and easy, but credit limits sometimes too low for larger borrowers
- Traditional bank loans
 - ✓ Can be costly, especially for smaller organizations, may require collateral
- Private lenders via Receivable Sale (Factoring)
 - ✓ School sells its future state aid payments at a discount, fees can be high
- TRANs
 - ✓ Complex, fees can be high, but interest rates typically low



TRANS v. Receivable Sale (Factoring)

TRANS

- Borrowing funds raised through note sale to be repaid with future state aid payments
- Interest Rate: determined after pool of borrowers receives rating from agency and TRANS priced
- Collateral Required: None from schools
- Costs to Consider:
 - ✓ Borrower's counsel
 - ✓ Upfront Fees
 - ✓ Interest rate(s)

Factoring

- Sale of state aid payments due to the charter school in exchange for advance funding
- Interest Rate: based on credit risk profile of the borrowing school
- Collateral Required: Real or personal property in some cases
- Costs to Consider:
 - ✓ Upfront Fees
 - ✓ Discount rate



Projected Savings from TRAN* Compared to Receivable Sale (Factoring) with 10.0% APR

TRAN with 2.0% Interest Rate

Total Deferrals	Net Amount from TRAN	Net Amount from Sale	Projected Savings
\$250,000	\$234,000	\$239,000	-\$5,000
\$500,000	\$478,000	\$478,000	\$0
\$750,000	\$722,000	\$717,000	\$5,000
\$1,000,000	\$967,000	\$956,000	\$11,000
\$1,500,000	\$1,455,000	\$1,433,000	\$22,000

TRAN with 2.5% Interest Rate

Total Deferrals	Net Amount from TRAN	Net Amount from Sale	Projected Savings
\$250,000	\$233,000	\$239,000	-\$6,000
\$500,000	\$476,000	\$478,000	-\$2,000
\$750,000	\$720,000	\$717,000	\$3,000
\$1,000,000	\$963,000	\$956,000	\$7,000
\$1,500,000	\$1,450,000	\$1,433,000	\$17,000

TRAN with 3.0% Interest Rate

Total Deferrals	Net Amount from TRAN	Net Amount from Sale	Projected Savings
\$250,000	\$232,000	\$239,000	-\$7,000
\$500,000	\$475,000	\$478,000	-\$3,000
\$750,000	\$717,000	\$717,000	\$0
\$1,000,000	\$960,000	\$956,000	\$4,000
\$1,500,000	\$1,444,000	\$1,433,000	\$11,000

TRAN with 3.5% Interest Rate

Total Deferrals	Net Amount from TRAN	Net Amount from Sale	Projected Savings
\$250,000	\$231,000	\$239,000	-\$8,000
\$500,000	\$473,000	\$478,000	-\$5,000
\$750,000	\$714,000	\$717,000	-\$3,000
\$1,000,000	\$956,000	\$956,000	\$0
\$1,500,000	\$1,439,000	\$1,433,000	\$6,000

* There are several unknowns, including the size of the pool and the amount of competitive products in the market at the time the Notes are sold. We will be working over the next several months to monitor the market and we will provide a more accurate estimate of the interest rate as we get closer to the time of sale.



ASAP Program is a Low-Cost Option for Charters

- The TRANs are expected to be rated SP-1 by S&P due to credit enhancement provided by a “loan-loss” reserve fund. We expect the SP-1 rating to markedly lower the interest rate
 - ✓ The reserve fund will be capitalized by one or more Credit Enhancement for Charter School Facilities grant awards from the U.S. Department of Education
 - ✓ A separate series of TRANs will be available to charters that do not meet the criteria of the enhancement grant and/or in the event demand for these loans exceeds the lending capacity of the credit enhanced TRANs
- Pooled TRANs decrease upfront fees per loan by combining the loans of many charters to create economies of scale
- Aggregating the loans of many charters into a larger offering will likely attract more investors and increase competition to lower interest costs (without creating a joint obligation)



Additional Benefits of the ASAP Program

- CSFA's state-level intercept of apportionments in the amount needed to repay the loans will simplify repayment for charters and increase investor security
- Structuring and sale of the TRANs will be supported by the State Treasurer's Office (STO) which oversees all State bond issuances
- Financing documents will be standardized for consistency, and specific directions for board action will be provided to charters
- Charters will not be required to prepare monthly cash flows to determine a projected cash deficit. The loans will be sized using the schedule of deferred apportionments for FY 2020-21



Timing of the Pooled TRANs/Charter School Loans

- With State aid payments deferred from February through June 2021 to July through November 2021, we expect most charter schools will experience cash deficits by April or May 2021
- The first series of pooled TRANs is expected to close and fund loans to charters by late March
- CSFA anticipates offering additional series of pooled TRANs in May or June
- Charter schools will have the option to participate in any one of these series



Key Dates for the March 2021 Pooled TRANs

ASAP Program Activity	Dates
<i>Application period for charters</i>	<i>Until Oct. 23</i>
Loans sized and financing documents prepared	October to mid-January
<i>Charter school board approvals</i>	<i>by Feb. 5</i>
CSFA Board approval	week of Feb. 8
First Principal Apportionment certified by CDE	week of Feb. 15
Preliminary Official Statement posted for investors	week of March 1
Interest rates determined	week of March 8
<i>TRAN closing and loans funded</i>	<i>by March 31</i>



Sizing the ASAP Program Loans

- CSFA expects the loans funded by the credit enhanced TRANs will be sized up to the charter's FY 2020-21 deferrals net of interest to be paid at maturity and issuance costs
 - ✓ Projected market interest rates for this series now range from 1.50% - 3.50%. Actual rates will be subject to market conditions when the TRANs are priced in early March 2021
 - ✓ Issuance cost estimates range from 1% of loan amount for loans > \$3 million to 5% for loans < \$250,000

(A) Total Deferrals	(B) Interest on Loan @ 3.0%	(C = A-B) Principal Amount of Loan	(D) Issuance Costs	(E = C-D) Projected Net Loan Amount
\$250,000	\$6,000	\$244,000	\$12,000	\$232,000
500,000	11,000	489,000	14,000	475,000
750,000	17,000	733,000	16,000	717,000
1,000,000	22,000	978,000	18,000	960,000
1,500,000	34,000	1,466,000	22,000	1,444,000
3,000,000	66,000	2,934,000	34,000	2,900,000
5,000,000	112,000	4,888,000	50,000	4,838,000

**** Please contact the financing team for an estimated loan sizing ****



Repaying the ASAP Program Loans

- The first series of TRANs will be issued in late March 2021 and mature in early January 2022; all interest will be paid at maturity
 - ✓ The set-aside dates and amounts will be tied to the July through November deferred apportionments
 - ✓ Deferrals will be accessed directly by the State Controller to automatically repay loans with no future action required by the charter school
 - ✓ If necessary, the State Controller will use FY 2021-22 apportionments in the months of July through December to make the required set-aside payments

Month	Projected Net Loan Amount	Set-Aside Dates & Amounts	Loan Maturity
March	\$717,000		
April			
May			
June			
July		\$187,970	
August		154,136	
September		154,136	
October		154,136	
November		99,622	
December			
January			\$750,000



Minimum Loan Application Requirements

- Charter schools that satisfy all the following minimum requirements are encouraged to apply:
 - ✓ Operational for the full fiscal year 2019-20
 - ✓ California non-profit public benefit corporation/limited liability company duly incorporated/formed in good standing under State laws
 - ✓ Organization described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income tax under Section 501(a) of the Code
 - ✓ School is in good standing with its charter authorizer and in compliance with the terms of its charter at the time of application submission



Participation Requirements of the Credit Enhanced TRANs*

- 1) For a charter to participate in the TRANs secured by the loan-loss reserve fund, the school will be required to certify that it satisfies one of these four criteria:
 - ✓ Located in a school district and/or county where at least 50% of students have not met the State standard for proficiency in either math or language on the state assessment
 - ✓ Located in a school district and/or county where at least 15% of public schools have been identified for improvement or corrective action
 - ✓ Located in a school district and/or county with 60% or more of the student population is eligible for free or reduced-price meals (FRPM)
 - ✓ At least 50% of current or projected students enrolled at the charter school are eligible for FRPM
- 2) The size of the loan funded by the credit enhanced TRAN series may be limited to the lesser of the charter's FY 2020-21 deferrals and its FY 2019-20 facilities expenses

* The loan capacity of the TRANs secured by the loan-loss reserve fund will be limited. If the demand for these loans from eligible charters exceeds capacity, funding will be awarded on a first-come, first-served basis *

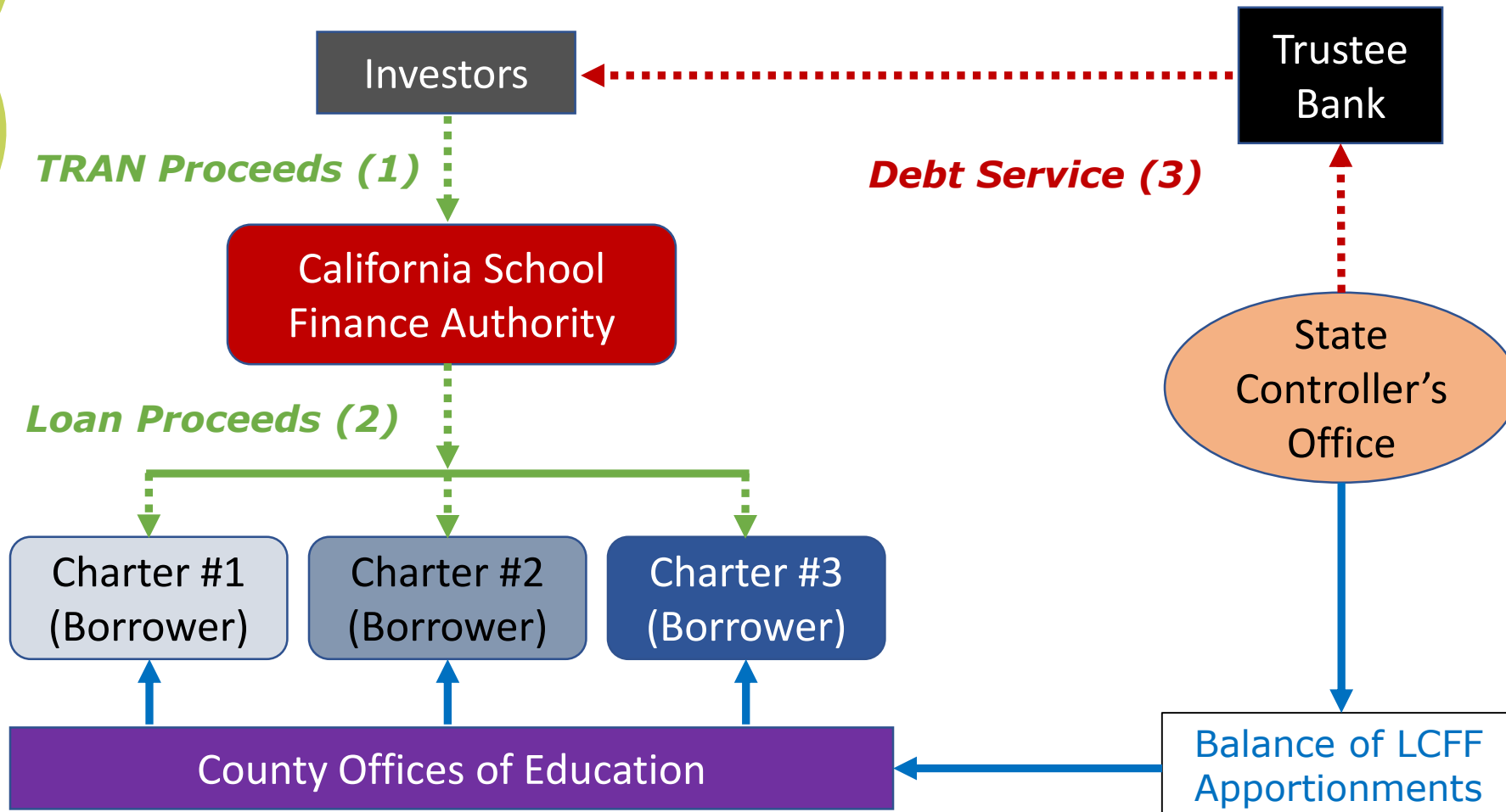


Applying to the ASAP Program

- Go to <https://www.treasurer.ca.gov/csfa/charter-trans/index.asp> to view the ASAP Program website and to access the loan application
- The completed loan application with required documentation should be transmitted to ASAP@treasurer.ca.gov by sending one or more emails
 - ✓ Information is requested about the charter school and Intended Borrower (if different)
 - ✓ If submitting applications for multiple schools with a CMO serving as the Intended Borrower, the loan application worksheet should be duplicated in the Excel file to complete one worksheet for each school
 - ✓ Applicants will be required to provide a short-list of all outstanding and anticipated financial commitments, and submit all relevant documentation with the application
 - ✓ Additional items such as charter agreement, financial audits, FY 2020-21 adopted budget, and FY 2019-20 attendance reports should be submitted with the application
- There is no cost to apply to the ASAP Program
- Loan application deadline is October 23 for March 2021 loan disbursement



ASAP Program Financing Structure



Financing Documents

- 1) Indenture
- 2) Loan Agreements
- 3) Intercept Notices



“Pen-to-Paper” for Borrowers

- Loan Agreement with CSFA
 - ✓ In exchange for a cash infusion prior to the deferrals
 - ✓ Promise to repay CSFA from any funds
- Intercept Notice to State Controller’s Office
 - ✓ Deferred amounts needed to repay loan will be “intercepted” by State Controller and sent to Note Trustee for repayment of loan amount
 - ✓ Schedule will be based on dates determined before closing of the loan



“Pen-to-Paper” for Borrowers

- Closing Conditions for Borrowers
 - ✓ Ensure borrowing not prohibited or limited by existing obligations
 - ✓ Charter in “good standing” with authorizer
 - ✓ Representations made are true and correct
 - ✓ Borrower’s Counsel Opinion



Borrower's Counsel Opinion

- Provided by counsel to you, the Borrower
- Note Counsel does **not** represent the Borrower, it represents CSFA
- Opinion provides comfort to CSFA, Note Counsel, and Underwriters about:
 - ✓ Status of Borrower as nonprofit organization, charter school, and qualification under CSFA Act
 - ✓ Power of Borrower to enter agreements
 - ✓ Confirming that the Loan Agreement and Intercept Notice are valid and binding obligations
 - ✓ No conflicts with existing Borrower obligations
 - ✓ Disclosure to investors is accurate and not misleading



Speakers & Contact Information

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Q&A
Please use the
Question Box
to submit
questions



ASAP Program Recap

- <https://www.treasurer.ca.gov/csfa/charter-trans/index.asp> to view the ASAP Program website and access the loan application
- The first series of pooled TRANs is expected to close and fund loans to charters by late March / additional series of pooled TRANs to close in May or June
- Charters have the option to participate in any series
- The completed loan application with required documentation should be transmitted to ASAP@treasurer.ca.gov by sending one or more emails
- There is no cost to apply
- The loan application deadline is October 23 for loan funding in March
- Loan funding will be awarded on a first-come, first-served basis
- Thank you!



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