

California School Finance Authority**Webinar Transcript****Weathering the K-14 State Apportionment Deferrals – State Budget, Cash Flow Management and
TRANS
September 17, 2020**

The deferral of State apportionment payments for up to seven months will create unprecedented financial challenges for California's charter schools. Many charters will need to consider some form of external, short-term borrowing to maintain financial liquidity.

In coordination with the California Debt and Investment Advisory Committee (CDIAC), this California School Finance Authority (CSFA) webinar will brief charter schools on aspects of the State's FY 2020-21 budget related to cash flow management; present the short-term borrowing options available to charters; and, describe CSFA's ASAP (Advances of State Aid Payments) Program, which will provide charter schools with lower cost, timely and fully-transparent access to the capital markets. Register "ASAP" to learn more about this cost-effective State borrowing program.

[Editor's Note: This transcript has been prepared by the California School Finance Authority (CSFA) and it believes it to be a fair and accurate reproduction of the comments of the speakers. Any errors are those of CSFA and not the speakers.]

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

Automated Message: The broadcast is now starting. All attendees are in listen-only mode.

Katrina Johantgen: Hello, and thank you all for joining us this afternoon. It is a pleasure to share with you all the launch of our new ASAP program. As many of you know, my name is Katrina Johantgen, and I am the Executive Director of the California School Finance Authority. I've overseen the Authority and its programs for nearly 20 years now. Recently, as Chair of CSFA, State Treasurer Fiona Ma called on the Authority to assist California's Education sector weather the COVID induced recession and the effects of State deferrals. The ASAP program is one of the results of these efforts. We hope you find today's webinar informative and that it provides you with the tools you will need to withstand the State deferrals. We have created this program to be secure, low cost, and streamline. Now, it is time for the obligatory housekeeping slide.

Slide 2 – Housekeeping**0:55**

Katrina Johantgen: If you're experiencing any technical problems, please contact GoToMeeting at (877) 582-7011, or you can try the website at the address on the screen to troubleshoot your problems. The slides for today's presentation are available in PDF form in the Handouts section of the webinar control panel, as well as linked in the webinar chat. We also encourage you to submit questions during the broadcast using the box marked questions near the bottom of your control panel. You may submit questions at any time as they come to mind. Time permitting, we will be taking as many questions as we can at the end of our session during the Q&A period. Additionally, if you'd like access to live captioning during the program, click on the link in the Chat section at the bottom of your control panel, or copy and paste the address on the screen, and do a second web browser. And lastly, CSFA will make the webinar recording available on our program webpage as soon as possible.

Slide 3 – California School Finance Authority (CSFA)**1:59**

Katrina Johantgen: The California School Finance Authority was created in 1985. Then Treasurer Jesse Unruh had a vision to expand the powers of the office. He created boards, commissions, and authorities to meet the various infrastructure needs throughout the State, such as educational and health facilities, pollution control, and advanced transportation and alternative energy to name a few. CSFA was created to finance educational facilities and working capital on behalf of school districts, County Offices of Education, Community College districts, and most recently non-profit charter school borrowers. As a governmental entity, CSFA is governed by a three-member board, with two of those members being statewide elected officials. The Authority is chaired by State Treasurer, Fiona Ma, with Superintendent of Public Instruction, Tony Thurmond, and Director of Finance, Keely Martin Bosler, serving as members. CSFA currently administers 10 active, state and federal debt and grant programs. As most of you know, CSFA administers; the State SB 740 Facility Grant Program, the State's Charter School Facilities Program, a robust conduit bond-financing program that routinely issues debt into the capital markets on behalf of non-profit borrowers, such as Charter schools, our Bank Loan Program, the charter ABLE Program, which is being used to enhance the ASAP program, the PANACEA (Project Acceleration Notes and Credit Enhancement Alternatives) program, which is another credit enhancement program, the Charter School Revolving Loan Fund, which provides low interest, loans to new charter schools, the State Charter School Facilities Incentive Grant Program, the Charter School Facilities Credit Enhancement Grant Program, and lastly, our new ASAP (Advances on State Aid Payments) program. Through these programs, the Authority has disbursed over four billion to charter schools since 2002. As drafted, the CSFA Act provides broad statutory authority to issue short and long-term debt on a standalone or pooled basis. CSFA is set apart from other conduit issuers because of its state level intercept mechanism, which can be found in section 17994 of the Education Code.

Slide 4 – CSFA as Conduit Bond/Note Issuer**4:16**

Katrina Johantgen: The intercept Mechanism allows borrowers to make debt service payments at the state level. Through an intercept schedule, borrowers notify the State Controller to make payments on behalf of investors to bond trustees. This mechanism ensures that timely payments are made and improves investor security. Additionally, CSFA is supported by the State's Treasurer's Public Finance Division. As agent for sale, the Public Finance Division oversees all bonds and note pricing activity and other tasks to ensure borrowers are achieving the lowest cost. The State Attorney General's Office, serves as issuers counsel on all financing issues through CSFA. Notably, CSFA holds monthly board meetings and has the flexibility to hold special meetings and for non-profit borrowers, CSFA holds state level no cost TEFRA (The Tax Equity and Fiscal Responsibility Act of 1982) hearings. And lastly, as a governmental entity, CSFA is mission driven, not transaction driven. All debt issued through CSFA is placed with investors, commensurate with the credit quality set forth in our bond issuance guidelines. CSFA has set low issuer and administrative fees to further bring down overall borrowing cost. CSFA has consistent leadership and the support of top financial advisory firms.

Slide 5 – Conduit Issuance Transaction Highlights**5:38**

Katrina Johantgen: Since 1999, CSFA has issued over \$1.7 billion in short and long term debt on behalf of school districts and non-profit charter schools. Of the 93 transactions closed, 18 were working capital notes financing totaling approximately 200 million while 75 financings were issued on a long-term basis. CSFA has been awarded three federal grants totaling \$37 million to enhance that issue to the authority. One

of these grants has leveraged one \$8 million grant 17 times resulting in nearly \$150 million issued. So, the reason we're all here today, our new ASAP program.

Slide 6 – Advances on State Aid Payments (ASAP) Program

6:21

Katrina Johantgen: With the announcement that 36% of State aid will be deferred, CSFA recognizes the need for externals, short-term borrowing by early 2021, to maintain financial liquidity. The ASAP program was offered to provide charter schools and charter management organizations a transparent, low-cost alternative to bank lines of credit and the sale of apportionment, receivables, or factoring. CSFA will issue tax and revenue anticipation notes to investors and use those proceeds to make loans to charter schools on the same terms. Charter schools will use these loans as a cash bridge over the February to November 2021-deferral period. With CSFA direction, the charter schools deferred apportionment, will be accessed directly by the State Controller to automatically repay the loan with no further action required by the schools.

Slide 7 – The ASAP Program Financing Team

7:18

Katrina Johantgen: We've convened a team of professionals with extensive education finance expertise to assist with the ASAP program. We're pleased to announce that Montague DeRose is serving as the municipal advisor on the program, Orrick Herrington and Sutcliffe will serve as note counsel, Nixon Peabody, as Disclosure Council, and RBC Capital Markets and Citigroup are serving as joint Senior Managing Underwriters. We also have the support of other state agencies, such as the Department of Finance, the California Department of Education, and the State Controller's Office. CSFA will be serving as issuer and the State Attorney General's office will serve as Issuers Council.

Slide 8 – Speaker Introductions

8:01

Katrina Johantgen: At this time, we are thrilled to introduce our panel of experts for today's webinar, Eric Premack, the Executive Director and Founder of the Charter School Development Center, Nick Watson, Senior Advisor, Facilities of the California Charter Schools Association (CCSA), John Solarczyk is managing director at RBC Capital Markets, Mike Kremer is a Managing Director at Montague DeRose and Associates, and Mark Bauer is a partner at Orrick, Herrington and Sutcliffe. We are going to spend the next 60 minutes or so discussing the 2021 deferrals and exemptions, potential options if cash is short, the ASAP program, timing of the program, mechanisms of the program, applying for the program, the legal structure, and documents needed to participate in the program. We will, if time permits, have a Q and A portion, and then we will provide you with contact information. At this time, it is my honor and privilege to turn the webinar over to Eric Premack.

Eric Premack: Thank You, Katrina. We appreciate the work that you and all of your colleagues at CSFA are doing on this program.

Slide 9 – State Aid Deferrals

9:13

Eric Premack: As most of our participants today know, the States 2021 budget and the related trailer bills enacted \$12.9 billion worth of deferrals of state aid to education agencies in California, and specifically, these defer large portions of the usual monthly state aid payments to education agencies, including charter schools. These deferred, not only the State aid component of the local control funding formula, but also the State component of the so-called AB 602 special education formula, along with a number of other items. With these other items typically not applicable to charter school, but certainly the LCFF and Special Ed pieces are, these deferrals will not affect the local property tax, nor the education protection account portions of the principal, apportionment, and only affect the state aid component. This first of these deferrals already

occurred this past June and defer the entire June State aid payment into July and were paid mid-July. It's worth noting that this June to July deferrals is a permanent feature of state law, unless state law is amended.

Slide 10 – State Aid Deferrals (cont'd)**10:30**

Eric Premack: The, in addition to the July deferral of the budget trailer bill enacted a number of one-time deferrals of the Spring 2021, principal apportionment, including deferring about \$1.5 billion of the February State Aid payment for nine months into November. It will defer another \$2.4 billion in each of the months of March, April and May by seven months, five months, three months respectively, such that a significant portion of the state of aid that is normally due to you will arrive several months late. Since the June apportionment is baked permanently into the Education Code, it too will be deferred in its entirety in 2021 and in subsequent years into July. While state budget staff have informed us that they don't plan any changes to the size or duration of these deferrals, I will note that our experience during the Great Recession was that sometimes these things changed.

Slide 11 – FY 2020-21 State Aid Deferrals (as of Sept. 2020)**11:44**

Eric Premack: This table illustrates how this will affect your state aid. The first column shows the related months. The second column displays how the state aid is usually apportioned to the majority of charter schools and school districts according to what is known on the street as the 5, 5, 9 schedule. Because it follows that the first two months, we pay five percent, and the remaining months, roughly nine percent of the typical state aid amount. A small number of schools it's worth knowing are on a different schedule from the 5, 5, 9 schedules, and you can contact us for more details if you're one of those districts. The third column shows the percentage of state aid that will actually be apportioned next year according to estimates recently published by the California Department of Education that they posted last week. And if you tally them all up, you'll note that only about 64% of the state aid will be apportioned by the end of the year with nearly 36% deferred until after the fiscal year. The second to the last column displays a month that the amount will be apportioned and the percentage of the total amount of state aid owing that will be apportioned in the relevant months. We're recommending that you use these to estimate the delays in state aid for your schools as part of a larger comprehensive monthly cash flow estimate so that you can get gage the depth and timing of the cash shortfalls that you may experience.

Slide 12 – Deferral Exemptions**13:27**

Eric Premack: The trailer bill does allow for limited exemptions, as was the case during the Great Recession. The trailer bill, however, caps the total amount of exemptions and no more than \$100 million statewide for each of the relevant months pursuant to a yet to be posted application. Schools that apply for these exemptions will need to submit a cash flow projection, documenting their needs and for charter schools, those must be approved and certified by the authorizing district and County Office of Education. Given the limited and cap nature of these extra exemptions, many schools and local education agencies, including charter schools, are planning to rely on programs like this one, to be more certain of their cash flow whether your organization plans to apply for an exemption or not. However, it's presumably a good idea to develop some detailed monthly cash flow projections as these don't tell you whether you have a cash flow problem to begin with and if so, how large, when to borrow, what and how much. If you do plan to apply for an exemption, we would urge you to prepare these estimates quickly because the exemptions will be rationed on a first come, first serve basis. I'll now hand off to Nick Watson from CCSA.

Slide 13 – Potential Options If Cash Is Short**15:00**

Nick Watson: CCSA has been working with CSFA and the Charter School lenders for the last few months to ensure that California charter schools have access to affordable sources of working capital to make it

through upcoming deferrals. We'd like to spend a few minutes today, providing a high-level overview of the various options that are available to charter schools facing deferrals. The first option that schools might consider is negotiating with creditors to delay or restructure payments. This approach can provide a temporary solution, can also be costly, and potentially damage a school's relationship of creditors, so these drawbacks should be taken into account. In terms of financing options, lines of credit with commercial lenders are available for charter schools. Lines of credit are typically low-cost and simple to establish, but the amount of financing available might be too small for larger schools or networks. A traditional term loan from a bank or private lender is also an option for charter schools. Term loans are relatively straightforward to obtain, but interest we'll see on term loans can be costly, especially for smaller organizations. Some private lenders provide financing via the sale of receivables refactoring, which requires a school to sell future state aid payments at a discount. The sale of receivables has worked for schools during previous deferrals, the costs can be high and difficult to assess. Tax revenue anticipation notes have not been widely available to charter schools in California previously and the ASAP program is designed to meet this need. TRANs sales can be complex, and fees can be high but interest rates are typically low. Charter leaders should carefully evaluate costs and structure of options as some of these financing sources are complex.

Slide 14 – TRANs v. Receivable Sale (Factoring)**16:57**

Nick Watson: CCSA recently surveyed charter school leaders to learn more about their working capital needs. The feedback that we received from charter leaders told us that TRAN and sales receivables were the two sources of financing that are the least understood. So, we thought it would be helpful today to provide some additional information and a comparison of these two finance options. As we mentioned previously, TRANs allow charter schools to borrow money that will be repaid in future funding. Charter schools can be pooled together for TRANs and be rated as a group for credit and charter schools will not be asked to provide collateral. Additional considerations for TRANs include the costs that schools are required to pay, such as legal and other fees, as well as the interests that will accrue on the outstanding loan amounts. With receivable sales, charter schools should understand they will be agreeing to sell future state aid payments. Schools that sell receivables will have their credit risk profiled by the lender to determine rate. In some cases, factoring lenders will also require schools to provide collateral for the financing provided to the school. Typical factoring costs include upfront fees, and a cost is typically referred to as a discount rate.

SLIDE 15 – Projected Savings from TRAN Compared to Receivable Sale (Factoring) with 10% APR
18:13

Nick Watson: We thought it also be helpful to show you how the costs associated with TRANs and receivable sales might play out under different financing scenarios. At this time, there are still several unknowns so we prepared the tables on this page with a few different TRANs and interest rates. In the first table, in the upper left corner of the page, you can see that schools have borrowed \$750,000 or more, and at 2% interest rate using TRANs would save thousands of dollars compared to a sale of receivables at 10% APR. As you move to the subsequent tables on the page, you can see that the interest rate for TRANs increases from 2% to 2.5%, 3%, and then 3.5%. As they move across the page, the cost savings for TRANs decreases to the point where we only see cost savings for schools borrowing 1.5 million dollars. The ASAP team will be working over the next several months to monitor the market and will provide a more accurate estimate of the interest rate as we get closer to the time of sale. With that, I'll turn it over to John Solarczyk of RBC Capital.

SLIDE 16 – ASAP Program is a Low-Cost Option for Charters**19:26**

Johnson Solarczyk: Thank you, Nick, I'm Johnson Solarczyk with RBC, one of the underwriters of the notes. On the next few slides, we will get into some of the details about the program. We're structuring the TRANs to obtain a rating from Standard and Poor's, which we expect will help us achieve the lowest possible interest rate for our participating schools. By creating a rated pool of loans, we expect to lower the cost for schools by spreading fees among many participants. We plan to have a reserve fund available to help provide security for investors. The reserve will be funded from grants from the US Department of Education. As Nick mentioned, on the previous slide, for the purposes of running cash flows, for the S&P rated tool, we're using a 3% interest rate, which we believe to be on the higher end of our estimated range. There are several unknowns, including the size of the pool, and the amount of competitive products in the market at the time that our 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. The short-term interest rate market today is at all time historic low levels. In fact, the feds signaled yesterday that they expect to hold rates near 0% to at least 2023. Although, it seems as if these rates will stay very low for the near term, they could certainly be higher in February than they are today, given the ongoing uncertainty related to the pandemics, the election in November, and the current economic outlook. We're also contemplating a second series for those schools that don't meet the requirements for the first pool. The second series would not have the credit enhancement grant as a reserve fund, but it would still, however, be eligible for the state intercept. We are expecting this series to have a lower credit rating or possibly be sold on an unrated basis. For the purpose of running cash flow for this pool, we're assuming an interest rate of 4%, which we also believe to be on the higher end of our estimate, an interest rate range in the current market.

SLIDE 17 – Additional Benefits of the ASAP Program**21:22**

Johnson Solarczyk: Listed here are a few more features of the program. We plan to use the state intercept mechanism to repay the notes. As Katrina previously mentioned, CSFA already uses this for their long-term bond issuances for charter schools. Intercept will simplify repayment and provide additional security for investors as funds will be taken off the top from the monthly apportionment and used to repay the loan. The State Treasurer's Office will support the offering as it does for long term financing issue through CSFA. We will also use consistent documents and work with each charter school to ensure that they take proper board actions. Typical note offerings involves schools having to prepare projected monthly cash flows to determine how much they can borrow. We are not planning on asking schools to prepare those cash flows as we will size their loan using the amount of the state deferrals, which should simplify the process for the schools.

SLIDE 18 – Timing of the Pooled TRANs/Charter School Loans**22:23**

Johnson Solarczyk: In terms of timing, the state deferrals will occur between February and June of 2021, we expect to fund loans by the end of March, which should be early enough for schools to fund their deficits. Subject to demand from schools, we plan to offer another series later in the year.

SLIDE 19 – Key Dates for the March 2021 Pooled TRANs**22:42**

Johnson Solarczyk: We summarize some of the key upcoming dates for the program. The application is currently up on the CSFA website. We will be accepting those applications until October 23rd. We expect to spend the next few months sizing the loans and preparing the financing documents. We'll be looking for all participants to have their own board approvals in place by February 5th. We expect to have the offering in the market in early March, and as previously mentioned, funding is expected to be in place by the end of

March. I'll now turn it over to Mike Kremer from Montague DeRose to go over some details on the sizing of the loans.

SLIDE 20 – Sizing the ASAP Program Loans**23:22**

Mike Kremer: Thank you, John. I'd like to take a few minutes to discuss how the ASAP program loans are sized and repaid. The ASAP program will offer Charter's, a total borrowing cost that is very competitive with other deferral financing options. CSFA expects the loan is funded by the credit enhanced TRANs, will be size up to a maximum dollar amount, equal to total referrals, net of interest to be paid at maturity, and net of issuance costs. Of course, the loan amount can be less than this maximum amount. The table at the right shows how the loan amounts will be calculated for various total deferrals, ranging from \$250,000 to five million. Loan amounts for deferral of greater than five million will be available, but are not shown on the table. Schools with deferrals of less than \$250,000 may find factoring to be more cost effective than an ASAP loan. Please note that, while the figures in this table assume a 3% interest rate, the actual rate will not be set until the TRANs are priced in early March. Based on current market conditions, we believe our 3% interest rate assumption is a high-end figure. Looking at a total deferral of \$750,000, the interest view at maturity is deducted against the loan principal amount of \$733,000. Next, the estimated issue costs, are deducted from the loan principal amount to arrive at the net amount provided to the school that day the TRANs are closed and the loans are funded. Looking at the \$750,000 example, the estimated issuance costs of \$16,000 are deducted from the \$733,000 loan amount, and the school is wired \$717,000 on the day of closing. Amplifying John's comments, the credit enhancement grant used to fund the Loan Loss Reserve has criteria tying the loan amount to the school's facility expenses. Specifically, the criteria may limit a charter schools loan size to the amount expended on facilities in fiscal year 2019-20. If these expenses are less than the school's total deferrals, the loan application includes a request for 2019-20 facility expenses. As mentioned previously, a separate series of TRANs will be available to charters, which do not meet the criteria of enhancement grant or in the event demand for the credit enhanced TRAN exceeds the lending capacity of the loan loss reserve. The best way for a school to determine its loan size to the ASAP program is to submit an application, and contact a representative, like myself, for an estimated loan sizing.

SLIDE 21 – Repaying the ASAP Program Loans**26:10**

Mike Kremer: Thanks, as John mentioned, CSFA is planning for the first series of TRANs to be issued in late March. These TRANs and therefore, the loans will mature by early January of 2022. All interests will be paid maturity and while the TRANs will be issued a few weeks after the February apportionments are disbursed, the February deferrals will be funded by the TRANs. The table at the right carries forward our example of an ASAP loan, taken to bridge total deferrals of \$750,000. In March, the charter receives a net loan amount of \$717,000 on the day of the TRANs close, and the loans are funded. Loan payments are set aside monthly from late July to late November. Based on the deferred apportionment schedule set by the state. In this example, the set aside matches the total deferral of \$750,000. Alone set aside payments will require no action by the school as the State Controller will automatically transfer these amounts, to a third-party trustee, US Bank. If a deferral payment isn't adequate to make the set aside payment, the State Controller will draw from that month's current apportionment to cover the shortfall. The loan will mature, and be fully paid off by early January 2022. A loan repayment schedule allows for an additional month of apportionments between the late November set aside payment and the early January loan maturity. This grace period, so to speak, will give the borrower and the financing team time to remedy any shortfall without having a loan placed into default.

SLIDE 22 – Minimum Loan Application Requirements**27:44**

Mike Kremer: We present the four minimum requirements to apply for an ASAP loan. First requirement is for the charter school to have been operational for the full 2019-20 fiscal year. Second, the legal structure of the charter school or authorized borrower must be a non-profit public benefit corporation or a limited liability company, duly incorporated. The borrower must be in good standing under state laws. Third, the borrowing organization is described in section 501(c)(3) of the IRS (Internal Revenue Service) code and is exempt from Federal Income Tax under 501(a) of the code. Lastly, the charter schools in good standing with its charter authorizer and in compliance with the terms of its charter at the time of application submission.

SLIDE 23 – Participation Requirements of the Credit Enhanced TRANs**28:35**

Mike Kremer: As I mentioned, the credit enhancement grant used to fund the loan loss reserve has certain requirements. For a charter to receive a loan from the TRANs series secured by the loan loss reserve, it must satisfy two requirements. Because the Loan Loss Reserve Fund will reduce the borrowing costs, we believe that checking these boxes will be worth the effort. To satisfy the first requirement, a school must be able to certify that it meets at least one of the four items listed on the page related to testing proficiency, academic status, FRPM (free and reduced priced meals) eligibility. The second requirement pertains to a limit on loan amount. At this time, we expect the loan size will be limited to a lesser of the charter's 2021 deferrals and its 2019-20 facilities expenses. While CFSA appreciates this limitation, it may negatively impact non-site-based charter schools. So, a separate series of TRANs will be available to charters that do not meet the criteria of the enhancement grant. This series will have a higher borrowing cost. The second series of TRANs also will fund loans in the event demand for the credit enhanced TRANs exceeds the lending capacity of the loan loss reserve. Funding from the credit unions TRANs will be awarded on a first come, first served basis, so we encourage schools to apply in advance of the deadline.

SLIDE 24 – Applying to the ASAP Program**30:03**

Mike Kremer: When you're ready to accept the loan application, please navigate your web browser to the ASAP program web page listed at the top of the slide. A complete loan application should be transmitted to ASAP@treasurer.ca.gov. You'll probably need to send more than one email to provide all the required documentation. I'd like to point out a few items about the loan application. The application requests information about the charter school and the intended borrower if the attended borrower, is different from the school. If a CMO (Charter Management Organization) is submitting applications for multiple schools with the CMO serving as the intended borrower, the loan application worksheet should be duplicated in Excel in order 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. Further instructions are provided in the application. Additional items, such as charter agreements, financial audits, 2020-21 adopted budget and 2019-20 attendance reports, should be submitted with the application. Lastly, please note there is no cost to apply to the ASAP program. The loan application deadline is October 23rd for the March 2020-21 loan disbursements. At this point, I will hand the presentation to CSFA's Note Council, Mark Bauer.

SLIDE 25 – ASAP Program Financing Structure**31:32**

Mark Bauer: Thanks, Mike, my name is Mark Bauer, and I'm a partner with Orrick, Herrington and Sutcliffe, and we are serving as Note council to CSFA in connection with the ASAP program. What we're looking at here is a diagram of the basic structure of the ASAP program. If you start near the bottom on the left side, you will see the charters. If you participate in the ASAP program, one of these boxes will represent

you. You will enter into a loan agreement with CSFA, which will commit you to repaying the loan in exchange for the loan proceeds. CSFA will pull all the loans pursuant to terms of an indenture and issue notes to the securities market for purchase by investors. As a closing condition, each borrower will file an intercept notice that will instruct the State Controller's Office to send certain amounts from your deferred payments directly to the note trustee. So, such amounts would be immediately available to pay debt service on the notes when due. The balance of the LCFF's (Local Control Funding Formula) apportionment, not accounted for in the Intercept Notice would then be sent to the relevant County Offices of Education to be provided to you, the school.

SLIDE 26 – “Pen-to-Paper” for Borrowers**32:45**

Mark Bauer: As discussed previously, you, the school will enter into a loan agreement with CSFA. This agreement will document primarily the terms of the loan, set forth representations that the school will make, and covenants the school agreed to for the period of time the notes are outstanding. Under the loan agreement, you will agree to execute an intercept notice that will tell the State Controller to send the amounts needed to repay the loan directly to the new trustee that the amounts that will be part of the intercept notice will depend on how much your school borrows.

SLIDE 27 - “Pen-to-Paper” for Borrowers**33:26**

Mark Bauer: In order to close the financing, CSFA, note council, and the underwriters need to ensure certain items about you, the school. Some of these include that the note borrowing is not prohibited by your existing obligations, your school is in good standing with your authorizer, and your representations that are made under the loan agreement are true and correct. In addition, an opinion of Counsel representing you is required.

SLIDE 28 – Borrower’s Counsel Opinion**33:53**

Mark Bauer: An important thing to note is that you will be required to engage the Counsel who represents your interests and provide comfort to the working group about your status and operations. Orrick, who was serving note counsel, who is representing CSFA on the transaction is not able to serve this role as borrower’s counsel. The opinion that borrowers Counsel will provide comfort about certain items, including the status of your organization as a non-profit organization qualifying under the Charter School Act, and qualifying as a borrower under the CSFA Act. Your ability to enter into these agreements and take on these binding obligations, including any conflict with any existing obligations you may have. And in addition, it will depend on the accuracy of the disclosure that is shared to the securities market in connection with the sale of notes. The entire ASAP working group has many years of experience working on charter school financings, and can provide recommendations to you about lawyers and law firms, who would be in a position to assist you in a borrower's counselor role. I will now pass, I will now pass it on to Katrina Johantgen for some concluding remarks.

SLIDE 29 – Speakers & Contact Information**35:16**

Katrina Johantgen: Thank you, Mark. So, I just wanted to highlight the speakers and provide contact information today. For those that participated, the Citi folks are not listed on here, but you are able to find their contact information on our program webpage.

SLIDE 30 – ASAP Program Recap**35:44**

Katrina Johantgen: This is just a recap. So, we do have an active webpage that's launched. We do other active application that's launched, and now we have the webinar information that will be available. So, I wanted to highlight that as Mike mentioned, the first series of pooled TRANs is expected to close and find

loans in late March. An additional series of pooled TRANs will 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 e-mails. If anyone is having trouble transmitting information to us, please give us a call at the number listed on the webpage or on this webinar. To highlight, there is absolutely no cost to apply to this program, because it is an online application, we think it's going to be relatively streamlined to apply with no cost. We are hoping to have all applications by October 23rd, for funding in March. If you have any issues submitting your application by then please give us a call. On loan funding will be awarded on a first come, first serve basis, as Mike mentioned, related to the enhanced piece of this financing. If you didn't hear information that you needed to hear today we do ask that you reach out to us. It appears that we have some questions and answers.. With that, I think, Mike, there were some questions teed up for you.

Annette Yee: This is Annette Yee. I was going to read off the questions and have people respond. The first one is, and there are actually several sets of questions in along the same vein, so if a school has an existing bond, does this preclude them from participating in the ASAP program? Mike, maybe you could start us off.

Mike Kremer: It doesn't preclude them from being an ASAP loan borrower. As you will see in the application, we asked a few questions about existing obligations or obligations that are expected for this year. So, you know, long-term facilities financing shouldn't be a problem. I think the only type of commitment that would be a direct problem alone is this: the school has already sold some of its receivables for the July to November period of next year because we would need to access those referrals to repay the loan. So, I think that's the one direct conflict we've seen, but we encourage you to apply. Let us take a look at your existing commitments, and we will get back to you.

Mark Bauer: I just wanted to add to that, As Mike said, it's really depends on what is in your bond documents, on what the restrictions are, and there are typical additional debt tests that do have broad authority for short-term borrowing, so that is what you would have on your bond docs. And then, it would allow you to be a part of this program, but, as I said, it's a school by school basis, document by document basis, so we would need to look at all that information.

Annette Yee: OK, and I think this is a related question. Well, charter schools, there two kind of back to back well, charter schools who have gone through bond financing for school site purchasing, be eligible in the ASAP program? And secondly, what if we already have an intercept for bonds? So, either Mike or Mark.

Mark Bauer: We would need to look at the documents, and they would set forth on how you would treat an additional intercept. Having the intercept does not preclude participation in this program and doing a subsequent intercept. We just need to make sure that in those documents that would allow for that and then we would file another intercept and provide the State Controller notice that there's now two intercepts for the school.

Annette Yee: OK, and then I have one another question, is the State Special Ed deferral official? I was under the impression that was, that it was still to be determined. Eric?

Eric Premack: If one looks at the statute here, it refers to all of the principal apportionment programs, and the Education Code Section 14041(a), which includes special Ed LCFF among other programs. I e-mailed back and forth with California Department of Ed staff in mid-July, and they confirmed that special Ed would be included. It's possible, something has changed since then. We'll circle back with folks if things

have changed but for now, we do anticipate that the special Ed apportionment will also be deferred, the State Aid 602 portions.

Annette Yee: OK, and if we apply in October are we obligating ourselves to take the loan in March, is there flexibility, and also when will additional rounds fund? Mike?

Mike Kremer: If we could turn back to slide 19 of the schedule, we have the key dates. OK, so what slide 19 shows, and you'll be able to see this when you download the presentation it lays out the key dates for the first funding round, when we expect to close by end of March. So, the application deadline is October 23rd and we'll work with the schools to size their loan, and we'll work with the attorneys on the team, at Orrick and Nixon Peabody to prepare the offering document and the loan documents and that'll happen in a couple of months. Then the Schools will seek board approval, and have that in hand by February 5th, would like to have that handled, and all board approved before. The item goes to the Authority board, which will be looking at the week of February 8th. One thing to add also on the schedule, will be waiting on CDE to certify P1 apportionments, which is why we have a little bit of delay on the schedule. Once we have those figures in hand, those are pretty much set in stone when it comes to deferrals. So, we want to use those and have all that information to size the loans and put that information in the offering document. So, then we would post the offering document, which is called the POS to investors the week of March first. So, by that point I'd say about late February that is going to be the go no-go decision for the charters. So, at that point you should have had your loan size, you've been working on the documents, you've had the documents board approved. I would say that's the deadline if you want an opt out of the borrowing to do that by end of February. It also had a question about the next funding round at this point. As we had mentioned, we're looking at a second series of TRANs with ASAP loans to come in May or June. We don't have a timeline for that just yet, but I think we'll probably have an application deadline for that round, probably sometime in March. I would caution you, though, as I mentioned, the loan loss reserve is going to have limited debt capacity. So, if that's all used up with the first series that goes in March, then the second series that comes in May or June will not have that enhancement, and will have a higher borrowing cost. You may want to consider that at the time your application.

Annette Yee: If we are submitting an application, are we bound to execute the purchase if the interest rates ends up being too high for us? That's probably, Mike, you can answer that.

Mike Kremer: Yeah, I think, you know, while we're cautious today, talking about the interest rate, we've given a range on one of the slides whether it was between 2% to 3%. As we've mentioned, we think the rates right now is between those levels, but that's based on current conditions. You know, we're not pricing the TRANs and the loans have the same rate as the TRAN pricing notes for a number of months until March. So, we're cautious. But as we get closer to that date, say, into early 2021, into February, we'll be providing updates on rates to all the applicants and the borrowers. So, you'll have a good sense of where the rate is going to be, by the end of February, I'd imagine. So, again, end of February is probably the last chance to opt out of the financing. Once you've gone to pricing, we have to stay with the loan, and TRAN amount. So, at that point, you'll be committed, but we'll provide a lot of updates on interest rates cost and there will be full transparency going into that pricing. Now, Annette, I know we had a question about, again, the facility cost issue in the grant. Let me touch on that again before you get a chance to type it out. So, as I mentioned, you know, the credit enhancement grant. It's a grant given to the Authority for long-term facility financing for charters. The Authority has received a waiver from the US. Department of Education to use the grant for working capital for this program, But, there's still the connection and nexus with the facility purpose. So, we believe that we will have to limit the loan size to the charter's, full, fiscal year facility cost, so we're using 2019-20. While we're still working out the details with, with the DOE (US Department of Education), and it's a small chance that percentage could go down below 100%. I wouldn't

hang my hat on it. I think we're just saying it's going to be a 100%. So, it's going to be the lesser of your facility cost and your deferrals. We think for most site-based schools, this will not be a problem. If you're non-site based or otherwise, it may limit your loan size, but as I mentioned, we are preparing to have a second series of notes to cover that eventuality from non-site based. And also, the possibility that we exceed the debt capacity of a loan loss reserve in the first series. The borrowers will go into the second series. These are first come first served applications, you know, to kind of reserve your space and that credit enhanced series we encourage you to apply soon and get yourself in the queue.

Annette Yee: OK, let's see, there was a question about SB 740 funding affecting TRAN funding, and I thought Katrina could answer that. That was, it just said SB 740 funding, and the effect on TRAN funding.

Katrina Johantgen: Um, I guess we'd have to understand the question a little better than that.

Annette Yee: So, OK, or maybe you can explain what SB 740 funding is?

Katrina Johantgen: Sure. So, the Charter School Facility Grant program is an annual funding program. It's a grant program where eligible schools apply for 75% of their facility costs. So, they receive, I believe, depending on their expenses three (3) to four (4) disbursements from CSFA of Facility funding so that the money is in the proportion in the budget. We know we're getting \$138 million for 2021, so there won't be a holdup of that programs funding. So, I don't believe there will be an impact on 740 clients with the TRAN program, but I would like to understand the question little better. Whoever asked can reach out to us. We'd be happy to answer that.

Eric Premack: Perhaps they're asking if the cash flow for the SB 740 program will be delayed. And our understanding is SB 740 funding will flow on its normal schedule and is not affected by these deferrals.

Katrina Johantgen: Correct. We have not heard anything like that from finance. If that did not answer your question, please reach out to us.

Annette Yee: OK, Let's see. We applied to the TRANs application that was due last Friday. Do we need to apply again? It sounds like that was for more traditional districts or colleges. Mike, can you take?

Mike Kremer: So, the authority is running to TRAN pools right now, this program is for charters. The other is for school districts and community college districts. So, if you applied through the K-14 program, you will need to re-apply with this application. We apologize for that.

Katrina Johantgen: There are other documents that we need under this program that are not required under the other program, so pretty streamlined.

Annette Yee: Great, thank you. And, again, if you have any questions on things, if you did apply on the K-14 program, I think we've reached out to you and asked you to re-apply, and now that the website is up with the application, please do so. If you have questions, just let us know. OK, on slide 22 we have two dependent charter schools. They are covered under, oh, and by the way, Mark, this is going to be for you, so I'll give you the heads up. We have two dependent charter schools. They are covered under the district tax ID. Not a 501(c)(3). Does this mean they do not qualify for the ASAP program?

Mark Bauer: If you apply and we can get all the information we can sort through that. There may be ways to make it work, but I can't speak to it at this point.

Annette Yee: Right, so we need more details. So, please apply and then we'll direct that specific question to Mark, or, you know, even if you don't apply, if you want to just contact the finance team through the website. That would be great, and we'll try to answer your question.

Katrina Johantgen: Depending on that, they might want to look at the other programs, so be sure, whoever is asking the question should reach out to us.

Annette Yee: OK, um, is board approval required for application to the ASAP program in October, or just by February?

Mike Kremer: There's no board approval to apply to the program, it will come later in the process. We would have the charter school if they're going to be borrowers approve their loan documents, etcetera, by early February. This is a planned process for these documents, so this is not something you can just take your board in, a simple resolution to approve without, without our involvement. So, we'll be giving you everything you need to take to your board and will not provide a lot of information about how that process works.

Katrina Johantgen: OK, folks did want to share webinar information with their board in advance of February, mean, it's a good idea to share this information with your board.

Annette Yee: Will Triple P Program funds interfere or impact the ASAP program approval, Mark?

Mark Bauer: No, those are separate funds and anything related to the deferral. We can size it based on your application and take that into account, or what you think you need to borrow, but it should not affect the qualification to the program itself.

Annette Yee: OK, is this just a one-year program? I think that deferrals will be expected to go over two (2) to three (3) years. Mike, can you answer that, please?

Mike Kremer: Our plan is to have this program up and running again next year. The Authority is spending a fair amount of time this year, getting this set up. We do expect there'll be additional deferrals in the State budget for 2021-22, so we will have this available for all of next year as well and possibly beyond that, if necessary.

Katrina Johantgen: Yeah, just to concur, we have the board support for this program and we've issued notes routinely, so this is going to be a program that's built into our portfolio for the deferrals and beyond.

Annette Yee: Right. So, it's going to be an ongoing program, and, let's see. Is there a limit to the amount of applicants that can receive the loan, that is, is there a maximum loan pool? Probably, Mike can address,

Mike Kremer: There will be a limited amount of that capacity under the Credit Enhance series, as I mentioned. However, we will have a second series that will not have a limitation on it. So, the program will be able to accommodate every charter that that applies and needs deferral funding.

Annette Yee: OK. If we use this program for deferrals, but need to borrow money in the fall, would the program allow this additional borrowing without requiring the later funding to be in second position? Not sure who to, Maybe, Mark?

Mark Bauer: I think that's an ongoing conversation, and maybe John Solarczyk or Mike can speak to that.

Johan Solarczyk: I would say that we, generally speaking to the further deferrals that are advanced then those payments will be secure. The notes will be secured by those, so you can't obviously double dip there. There probably won't be restriction on further financings that schools do if they do other kinds of borrowing. But as Mark said, that's something that's an ongoing discussion of what limitations we'll have to put in from the credit standpoint, to make sure we get the rating we want and the interest rate we want.

Annette Yee: I don't know if this was answered in that previous question. Will this intercept be subordinate to intercepts already set up for the bonds issued through CSFA?

Mark Bauer: It depends on what's allowed and your existing obligations. If it is an obligated group structure that you have and it allows for parody debt, it would be on parody most likely, what will be issued here. So, the typical situation with, the additional debt tests that allow for short-term debt issuance, they would be on parody.

Annette Yee: OK, does the borrower's counsel opinion need to be included for submitting the application by October 23rd? Mike?

Mike Kremer: Does not need to be submitted with the application.

Annette Yee: Submit the application, please, and we will tell you what the next steps are, including providing us with the bar counselors opinion as a follow up. Here's a question for Katrina, is CSFA participating in a different bond program for deferral financing? Or is this the only bond program that it is participating in?

Katrina Johantgen: This is the ASAP program for deferrals. Is the question are we offering other programs to whether deferrals outside of a program?

Annette Yee: That's right. Are any other programs being sponsored by CSFA, or this one this is the only program?

Katrina Johantgen: This is the only program that we intend to issue through CSFA.

Annette Yee: How about schools that were not in operation in 2019-20, since that was one of the requirements of this program? What can they do? Is there a program available for them?

Katrina Johantgen: Can I add something?

Annette Yee: Yes, please.

Katrina Johantgen: If you can go to our website, Our Revolving Loan Fund (RLF) is holding an extraordinary round because we have capacity in that program and the RLF program is structured for new charter schools. So please reach out to me with questions on that extraordinary round. There are obviously eligibility criteria, and it's up to \$250,000. So that's the constraint there, but please do reach out to us because we are opening that application period if it isn't already opened.

Annette Yee: Katrina, we're at a little after 2PM, We're scheduled to go to 2:30, are we going to continue taking questions for the rest of the time? There are quite a few questions.

Katrina Johantgen: I would say maybe until 2:15 if that works for the group.

Annette Yee: OK.

Mike Kremer: If I can just jump in, there have been a few questions about the minimum application requirements and we lay these out starting on slide 22. So, as was mentioned, the school would have needed to be operational for last year, 2019-20, they cannot be a new school and be eligible for the ASAP program, but, you know, the authorities RLF program is there for them to apply to. I would say there is no limitation, or requirement that your charter would be classroom based, so, if you're a non-classroom-based charter, you are eligible to apply, just with the caveat that we do have that limitation on, on facility expenses. So, I understand that facility issue is kind of nuanced, we've answered a few questions on that. I think if you have

more questions, the best thing to do is to contact us. You can call me, this is Mike, or you can e-mail me and we can sort out your specific situations, probably just best to do it on a case by case basis.

Annette Yee: OK, how about, is the timing the same on the subsidized program as a non-subsidized program? I'm assuming that that is referring to the credit enhancement grant.

Katrina Johantgen: Correct. The timing will be the same.

Annette Yee: OK, thank you.

Katrina Johantgen: The sense is that funds will be available at the same time, regardless of whether it's enhanced or not.

Mike Kremer: Right. That is the time it'll be the same.

Annette Yee: OK, and there was a question about because there may be a limitation due to oversubscription in the credit enhancement portion of the program, is first come, first serve based on the application's middle date?

Katrina Johantgen: Correct. So, we do need to address those charters that applied Mike under that K-14 webpage, so we'll have to confer on that as a group.

Annette Yee: OK. Let's see.

Mike Kremer: I see a question that is asking if this is a multi-year program, which it is. If the application this year is good for subsequent years, I would say at this point, no. I think, you know, we'll have a new funding round for 2021-22. That'll start sometime after July 1st of 2021.

Annette Yee: Right, so, it's a multiple year program, even though you've applied for this year, we would like you to re-apply next year if you need money again in the following year.

Katrina Johantgen: Correct. I don't know how many have looked at the webpage in the application, but it is, um, very, very structured to be very easy to use. If anyone has any issues with uploading documents or e-mailing documents, please reach out to us because that sometimes can be a barrier, too when submitting an application.

Annette Yee: If a school's charter petition expires in June 2021 and the new petition is not yet approved, would this be an issue with participating in the program? That, maybe, Mike, to start off with and then someone else.

Mike Kremer: Yeah. I can jump in then maybe Mark or John will weigh in. It's not going to preclude you from applying it to be considered. But, before we actually get to the point of giving your offer statement to investors in early March and pricing, we will have to have seen you are making significant progress with your authorizer. And of course, everybody has to be standing with your authorizer too. So, I would say if we can't see that it's likely that your charter it will be renewed, then you would probably not be able to participate in the March series but maybe in the May or June series.

Annette Yee: And there were a number of questions about, submitting various other requirements at the time of the application, and the answer to that is, please fill out the application, and then the other requirements like the counsel opinion letter, etcetera, can be submitted later.

Mark Bauer: This is Mark. The Borrower Counsel opinion will be delivered at the end of the entire process. So, everyone will do their due diligence, understand your organization, provide disclosure market the bonds and then at the end, the borrower's counsel will provide an opinion that clarifies and provides comfort to

everything we had just done. So, on the day that the funding happens, that opinion will be delivered. So that is at the end of the process.

Annette Yee: OK. And then, what about the good standing authorizer letter is that similarly, towards the end or is it sooner in the process?

Katrina Johantgen: That's something that CSFA will reach out to authorizers on behalf of applicants, something that CSFA staff will be there.

Annette Yee: Will additional information be provided to Charter authorizers regarding their role in the ASAP program, for instance, if a charter has had fiscal issues in the past and are considered high risk.

Katrina Johantgen: The interaction would be with the authorizer related to good standing and compliance. I'm not sure, Mark or John, if you see if there's an issue related to fiscal standing with the authorizer or Eric.

Mark Bauer: I think that concern as general risk of non-renewal and revocation of the charter. So, any issues that the authorizer has that would add to that possibility, would be more risk, and that's really a marketing question on what the rating agencies and investors, the extent of risk they would accept.

Johan Solarczyk: I agree Mark, we'll have to look on a case by case basis on those in those scenarios and see how many of those schools we have in the pool, and, what the impact is on the, on the overall credit, and, what each case is going to be. There has to be some nuances, I think, to that.

Mike Kremer: I would just add to that, in some ways, the application, the credit review is a binary decision. If the school is in, good standing, and we don't have concerns about, it's going concern. If you think it will be open for this year, on the next year, at least, that may be adequate. We look a lot and, as more investors to the State Controller intercept to repair the notes because, those dollars are taken off the top and, and diverted to the trustee. So that provides us with a lot of security to investors. It also helps with the rating. So, you know, that's something that we bring to the table with this program that that other deferral financing programs don't have.

Annette Yee: There was a question about how to calculate the amount of the TRAN. Can you take that, Mike? I know we covered it, but I think it may need further clarification.

Mike Kremer: If you can flip back to slide 20 we have the table that shows an example, deferrals from a quarter million to five million, we've laid out how this works. So, we look at the schools deferrals, which of course are subject to intercept for repayment we deduct from that what we expect to have to use of the deferrals to pay interest on the loan, which is what we show in Column B on Slide 20. That kind of gets us to column C, which is the principal amount of the loan. And then from there, we just deduct the issuer's costs that would be paid at closing. And then, in the last column, column E, this is the net amount to the school. So, I think this is fairly simple as to how we size, or we size the loans, or how we get to a net amount for the school. The one unknown here really, is, just, at this point, is the interest cost is subject to market conditions. We are working to finalize issuance costs in the next few weeks. So, I would say by early October, we would probably have those pretty firm when we give estimates to charters that inquire about the loans but we'll still be making an assumption about the interest rate and until actually price, price TRANs and the loans.

Annette Yee: OK, we got a question about how we can compare the various TRANs, cost I assume that various trans programs costs before making a decision. Mike, can you address that, please?

Mike Kremer: I'll just say that we've asked for all the schools to contact us for an estimate. We will size the loan and give you what we think is our best estimate, subject to market conditions. We think this is a

transparent process. We'd have to have the charter look at their other alternatives or, if they have an advisor, work with them to accept other options. Maybe Eric or Nick, want to weigh in on this question?

Nick Watson: Sure, this is Nick. I would just say, we've had many discussions with a whole bunch of folks on both the for-profit side and non-profit side that are aware that schools need help in this area and are willing and able to do so. And so, to the extent that you work with CSFA in the ASAP team, and get a kind of a projection of what the program entails for your school, and you want to compare it to other options, feel free to reach out to us. If you don't already have connections with folks that might be able to provide analysis of what else is available, we are happy to help make those connections. I think it's like anything else, you know, school shop around it, get as much information as they can and see what works best for them, and then make a decision.

Katrina Johantgen: Yeah, we just concur with what Nick said. I think as the borrower, you have the discretion to ask for cost upfront. And so, as Mike mentioned, we're going to be able to provide those in a few weeks based on TRAN sizes, that's what we would recommend that you ask for information and just, you know, make a determination based on cost and timing.

Eric Premack: This is Eric, and we'd be happy to do the same out of our shop at CSDC.

Annette Yee: OK, well, we have had a lot of the same questions come up again and again, and I don't want to keep asking the same questions. I think I've covered the majority of the questions, but if we, if we haven't, please reach out to anyone on the finance team to with your questions. I think a lot of these are very, kind of, specific to your situation. It might be better to have a one-on-one conversation. What I'd like to do at this point to turn us to slide 30, and then Katrina can wrap us up.

Katrina Johantgen: Thanks, Annette, and thank you all for sticking with us for the last hour and 15 minutes. It's, an honor to serve the State of California, and the charter schools within the State. We do appreciate you showing up and sharing this information with us. Just to recap again, our program page is up and running on the CSFA page, we are looking to issue the first series of notes by late March. Charters will have the option to participate in any series, and we will be requiring documentation to be submitted via the e-mail that we've provided here. Again, if you have any technical issues, please reach out to me or anyone on our team, and we will help you get those documents in with your application, there's no cost to apply and the loan application deadline, as Mike mentioned, is October 23rd. If you have any issues with the submission, please reach out to us and we will work with you on that. Then loan funding will be awarded on a first come, first serve basis as it relates to that credit enhance pool. So, with that, I want to thank you. So long stay well, and have a great day.