U.S. Department of Education
Washington, D.C. 20202-5335

APPLICATION FOR GRANTS UNDER THE

Grants for Credit Enhancement for Charter School Facilities

CFDA # 84.354A

PR/Award # S354A230015

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Contents

PART A - PROGRAM DESIGN AND ACTIVITIES

I. Proposed Use of Credit Enhancement Grant Funds

The California School Finance Authority (Authority) proposes two structures for deployment of the Federal Grant in equal amounts with benefits accruing to non-profit charter schools located in California. Assuming a [redacted] Federal Grant award, the first structure will deploy [redacted] to fund stand-alone debt service reserve funds sized to one year's debt service on long-term conduit debt issued by the Authority to finance the ownership of charter school facilities (the "Financing Reserve Fund Structure"). The second structure will use [redacted] to fund guarantees of charter school facility lease payments with a guaranty term of up to five years (the "Facility Lease Guaranty Structure"). Based on its extensive experience allocating awards under its Charter School Facilities Credit Enhancement Grant Program (CSFCE Grant Program) and recent communications with charter school operators and advocates, Authority staff believes both proposed uses of the Federal Grant will offer participating charter schools lower borrowing costs and better transaction terms than will be available without the credit enhancement. The Authority will not charge credit enhancement fees for either of these structures.

<u>Financing Reserve Fund Structure</u>: This use of the Federal Grant will assist longer tenured charter schools with their financing of the cost of acquisition, renovation, construction, or predevelopment of charter school facilities by funding a stand-alone debt service reserve fund on long-term, tax-exempt debt issued by the Authority on behalf of the charter schools. This debt may take the form of bonds placed with qualified investors or loans underwritten by commercial banks or CDFIs. Since 2010, when the Authority was authorized to issue conduit debt for California charter schools, it has issued [redacted] through 2022 benefitting over 120 charter school borrowers. As of May 2023, the Authority had used its 2009, 2017 and 2019 Credit Enhancement Grants Program awards to fund [redacted] of debt service reserve funds supporting [redacted] of conduit debt issued for California charter schools. This deployment of the Federal Grant is a proven, replicable structure and charter school demand for the reserve fund credit enhancement remains high.

The size of the reserve fund for each participating financing will be subject to limits established in Internal Revenue Service (IRS) regulations pertaining to tax-exempt bonds and in Authority regulations promulgated for use of the Federal Grant. Our cash flow analysis assumes the reserve fund is sized to cover maximum annual debt service, which will be roughly $[redacted] on [redacted] repaid over 30 years with a [redacted] borrowing cost. (The Authority's existing regulations limit the reserve fund size to [redacted] depending on the specific grant award.) Although the reserve fund commitment will run to the final maturity of the transaction because most tax-exempt debt is issued with a 10-year optional redemption feature, our financial modeling assumes the commitment will be released when the debt is refinanced[1] in year 10, with the reserve funds recycled to secure a new conduit financing in year 11. On a $[redacted] financing, a [redacted] reserve will leverage the Federal Grant by a ratio of 14.5:1. Our financial modeling shows that [redacted] in debt issued in years 1-7, supported by the $[redacted] Federal Grant plus interest earnings at [redacted] and net of [redacted] in administrative costs, will have cumulative leverage of 16:1. When [redacted] of Federal Grant funds are recycled to new borrowers from years 11-15, an additional [redacted] of credit enhanced debt can be issued, raising the cumulative leverage to 32:1. Over the 15-year period of the pro forma, 16 charter school borrowers would benefit from an equal number of the [redacted] debt service reserves funded by the Federal Grant to support $[redacted] in Authority bonds/loans.

Facility Lease Guaranty Structure: This use of the Federal Grant will assist early-stage and growing charter schools by funding stand-alone guarantees of facility lease payments, thereby facilitating the continued operation of charter schools. We expect these guarantees, sized to an annual lease payment with a guaranty term of up to five years, will provide the participating charter schools with more affordable access to comparable facilities and/or the ability to "trade-up" to better facilities with similar lease costs. In both cases, the lease guarantee will increase the charter school's financial stability by utilizing the guaranty instead of costly security deposits, thereby preserving charter school funds for educational purposes. Because private sector lessors are typically reluctant to offer facility leases to charter schools with shorter operational history and lower financial resources, Authority staff believes demand for the facility lease guaranty from newer charter schools will be high. And while the Facility Lease Guaranty Structure will be a new use of the Federal Grant by the Authority, it has extensive experience providing per-pupil facility lease funding for charter schools in low-income areas through its Charter School Facilities Grant Program (SB 740), whereby eligible charter schools receive up

[1] There are a few reasons we believe this refinancing assumption is reasonable. Most callable tax-exempt bonds are priced with coupons well above the yields to the call date, such as a 5.00% coupon bond priced to yield 4.00%, to provide the investor with more price protection against rising interest rates. Because these coupons are "above-market", they are more valuable to the borrower in terms of refinancing potential after year 10. With a normal ascending yield curve, today's 30-year yield becomes the 20-year yield in year 10, and this yield reduction creates natural potential for refinancing savings. Also, considering that charter school borrowers tend to be viewed as more creditworthy as time passes, a school will receive better pricing (lower yields) upon refinancing its bonds, all else being equal.

to 75 percent reimbursement for annual facilities costs. Staff believes offering facility lease guarantees will afford the Authority another opportunity to provide financial assistance to early-stage charters with facility needs.

The size of the facility lease guaranty available to each participating charter school will be subject to Authority regulations promulgated for use of the 2023 Federal Grant. Our cash flow analysis assumes the facility lease guaranty is sized to cover one annual lease payment of [redacted] a guaranty term set to the lesser of five years and the term of the facility lease. ([redacted] assumption comes from the Authority's FY 2022-23 data set for its SB 740 Program wherein the average annual lease cost for the 423 participating charters is $[redacted] and the median annual lease cost is $[redacted] With $[redacted] in annual lease payments over five years, the total lease payments are [redacted]. On a [redacted] facility lease, a $[redacted] facility lease guaranty will leverage the Federal Grant by a ratio of 5:1. Assuming the facility lease guaranty will be recycled to a new charter school every five years, approximat[redacted]n in leases will be guaranteed every five years. Our financial modeling shows that $[redacted]in leases guaranteed in years 1-15, supported by the [redacted] Federal Grant plus interest earnings at [redacted] and net of [redacted] in administrative costs, will have cumulative leverage of 17.3:1.

<u>Security for Repayment of Drawdowns on Federal Grant Funds</u>: Whether the Federal Grant is deployed through the Financing Reserve Fund Structure or through the Facility Lease Guarantee Structure, any drawdowns on the Federal Grant would be replenished by the Authority's intercept mechanism, which would be incorporated into each program agreement between the Authority and a participating charter school. Debt service payments due on conduit debt issued by the Authority are routinely made using the Authority's intercept mechanism. The intercept mechanism instructs the State Controller to redirect a specified amount of a conduit borrower's monthly state aid payments to a third-party trustee to be applied to the payment of scheduled payments due on the Authority bonds or loans. In the event a borrower's state aid funds are inadequate in a particular month, the intercept mechanism requires the State Controller to add any such deficiency to the subsequent month's scheduled transfers until no such deficiency remains for the borrower. In general, the obligations of the participating charter school to the Authority will be secured by a gross pledge of a charter school's on-going revenues from all sources and its liquid assets.

II. Proposed Preliminary Terms of the CSFCE Grant Program

The table in Exhibit A.1, below, summarizes the proposed terms of the CSFCE Grant Program, including how the Program will align its evaluation and award process to the selection criteria and other priorities cited in the Notice.

Exhibit A.1 Preliminary Terms of the CSFCE Grant Program	
Program Sponsor	The California School Finance Authority (Authority)
Governing Statutes	Education Code (EC) sections 17170 through 17199.5 (Authority Act).
Governing Regulations	CCR, Title 4, Division 15, Article 3, Charter School Facilities Credit Enhancement Grant Program.
Beneficiaries	Eligible applicants that have been verified to meet the definition of "charter school" in Section 4310 of the ESEA.
Program Structures	The Authority proposes two structures for deployment of the Federal Grant. The first structure will fund stand-alone debt service reserve funds sized to one year's debt service on long-term conduit debt issued by the Authority to finance the ownership of charter school facilities (the "Financing Reserve Fund Structure"). The second structure will fund guarantees of charter school facility lease payments with a guaranty term of up to five years (the "Facility Lease Guaranty Structure").
Purpose of Approved Financings	The two proposed Program Structures will leverage private sector capital for the following purposes: • Financing the acquisition (by purchase, lease, donation, or otherwise) of an interest (including an interest held by a third party for the benefit of a charter school) in improved or unimproved real property that is necessary to commence or continue the operation of a charter school. • Financing the construction of new facilities, or the renovation, repair, or alteration of existing facilities, necessary to commence or continue the operation of a charter school. • Financing the predevelopment costs required to assess sites and

Exhibit A.1 Preliminary Terms of the CSFCE Grant Program	
	to commence or continue the operation of a charter school per ESEA section 4304(e).
Term of Repayment	For the Financing Reserve Fund Structure, the final maturity of the long-term conduit debt issued by the Authority may be up to 40 years, but a 30-year term is typical. Although the reserve fund commitment will run to the final maturity of the transaction, because most tax-exempt debt is issued with a 10-year optional redemption feature, the Authority expects the commitment will be released when the debt is refinanced by year 10, with the funds recycled to secure a new conduit financing in year 11. For the Facility Lease Guaranty Structure, the facility lease term may be as short as three years or as long as ten years. The term of the guaranty will be set to the lesser of five years and the term of the facility lease, such that the grant will be recycled to a new charter school at least every five years.
Source of Repayment	Debt service payments due on conduit debt issued by the Authority are routinely made using the Authority's intercept mechanism. The intercept mechanism instructs the State Controller to redirect a specified amount of a conduit borrower's monthly state aid payments to a third-party trustee to be applied to the payment of scheduled payments due on the Authority bonds or loans. The state aid payments subject to intercept are the state's principal Apportionments made from the State School Fund (LCFF Grants) and Proposition 30 Education Protection Account (EPA). In the event a borrower's state aid funds are inadequate in a particular month, the intercept mechanism requires the State Controller to add any such deficiency to the subsequent month's scheduled transfers until no such deficiency remains for the borrower. Whether the Federal Grant is deployed as the Financing Reserve Fund Structure or as the Facility Lease Guarantee Structure, any drawdowns on the Federal Grant would be replenished by the Authority's intercept mechanism, which would be incorporated into each program agreement between the Authority and a participating charter school.

Exhibit A.1 Preliminary Terms of the CSFCE Grant Program	
Priority of Payments for State Intercept	Intercept payments are expected to be senior to all other obligations of a charter school borrower except for specific offsets of funds owed to the State. These offsets include, but are not limited to, the following: Charter School Revolving Loan (EC Section 41365), Class Size Reduction (EC Section 52124); Audit Repayment (EC Sections 41341, 41344); and Accounts Receivable (Government Code Section 12419.5), in addition to other possible authorized or required offsets, or additional offsets not yet authorized by legislation. The Authority does not anticipate these offsets having a material impact on the repayment resources of any participating charter school.
Security for Repayment of Drawdowns on Federal Grant Funds	Authority bonds and loans are secured by a gross pledge of a participating charter school's ongoing revenues from all sources and its liquid assets. The participating charter school's consent to use of the State Controller's intercept mechanism to repay funds due to the Authority is mandatory, including draws on Federal Grant funds.
Proposed Timeline	Receive Award Notification .... Fall 2023 Produce First Draft of Regulations .... Nov – Dec 2023 Conduct Demand Surveys .... Jan 2024 Produce Final Draft of Regulations .... Jan – Feb 2024 Authority Board Approves Regulations .... Feb – Mar 2024 Program Agreement Approval .... Mar – Apr 2024 Regulations Implemented .... Apr 2024 Application Posted to Authority Website .... Apr 2024 Information & Technical Workshops .... Apr 2024 Applications Due to Authority .... June 2024 Staff Recommendations .... Summer 2024* Authority Board Decision on Applications .... Early Fall 2024*

* In the event that approved applications are below the capacity of the CSFCE Grant Program, the application process will be continuously open until program capacity is met.

III. Anticipated Benefits of the CSFCE Grant Program

Increase Access to Financing with Better Terms and Lower Borrowing Costs: Authority staff believes both proposed uses of the Federal Grant – the Financing Reserve Fund Structure and the Facility Lease Guaranty Structure -- will offer participating charter schools lower borrowing costs and better transaction terms than will be available without the credit enhancement.

The Financing Reserve Fund Structure will assist longer tenured charter schools with their financing of charter school facilities by using the Federal Grant to fund a stand-alone debt service reserve fund on long-term, tax-exempt debt issued by the Authority. Bond investors and direct lenders take comfort from the presence of a debt service reserve fund on charter school financings, as it covers the risk of temporary shortfalls in debt service payments. By using the Federal Grant to fund the reserve fund, charter school borrowers benefit from not issuing additional debt to fund the reserve fund, an estimated reduction equal to [redacted] of principal amount plus the interest thereon for 30-40 years. And while the borrowers do earn interest on the reserve fund that is applied to the payment of debt service, the carrying cost of the reserve fund is high since interest earnings on tax-exempt proceeds are restricted by the IRS to the calculated arbitrage yield, a yield which is typically 1-2% below the all-in borrowing cost. Using the Federal Grant to fund debt service reserve funds for long-term financings is a proven, replicable structure and charter school demand for the reserve fund credit enhancement remains high.

The Facility Lease Guaranty Structure will assist early-stage and growing charter schools by using the Federal Grant to fund stand-alone guarantees of facility lease payments, thereby facilitating the continued operation of charter schools. We expect these guarantees will provide the participating charter schools with more affordable access to comparable facilities and/or the ability to "trade-up" to better facilities with similar lease costs. In both cases, the lease guarantee will increase the charter school's financial stability by utilizing the guaranty instead of costly security deposits, thereby preserving charter school funds for educational purposes. Because private sector lessors are typically reluctant to offer facility leases to charter schools with shorter operational history and lower financial resources, Authority staff believes demand for the facility lease guaranty from newer charter schools will be high.

<u>Designed to Recycle Federal Grant Funds to Serve More Charters and Increase Leverage</u>: The Authority's CSFCE Grant Program is designed to recycle Federal Grant funds as conduit debt is paid off. This approach will continue for the two proposed uses of the new Federal Grant award.

For the Financing Reserve Fund Structure, cash flow modeling indicates initial leverage of the Federal Grant by a ratio of 14.5:1. After factoring in interest earnings and 100% grant recycling as conduit debt is refinanced, cumulative leverage will rise to 32:1 by year 14 of implementation.

For the Facility Lease Guaranty Structure, cash flow modeling indicates initial leverage of the Federal Grant by a ratio of 5:1. After factoring in interest earnings and 100% grant recycling every five years, cumulative leverage will increase to 17.3:1 by year 14 of implementation.

The Authority will continue our outreach to charters, investment banks and lenders to maximize participation in the CSFCE Grant Program. Furthermore, the Authority's expertise and institutional capacity enable the program to "scale up" without delay should additional grant funds become available, whether from federal, state, local, or private sources.

Assisting Schools with the Greatest Need: The Notice for this Credit Enhancement grant makes clear the importance of assisting charter schools that serve students with the greatest need. The Authority's CSFCE Grant Program has been structured in a manner that addresses the Selection Criteria cited in the Notice. Exhibit A.1, above, and Part G describes how the Authority will address these Selection Criteria in program design, application process and ranking process for the CSFCE Grant Program.

The Authority will work with the charter school community and other stakeholders as it develops program regulations that are consistent with the criteria outlined in this Application. As is the case with all charter school financial assistance programs administered by the Authority, the CSFCE Grant Program regulations will recognize the importance of school choice for schools that are located in or near an area in which a large proportion of schools are: (1) identified for program improvement, corrective action or restructuring; (2) serving students performing below proficient on state testing; and (3) serving low-income students.

IV. Anticipated Performance Measures of the CSFCE Grant Program

The anticipated Performance Measures will be structured to track the CSFCE Grant Program's success at achieving the desired outcomes and benefits. These are summarized in the table in Exhibit A.2, below.

Exhibit A.2 **Anticipated Performance Measures of the CSFCE Grant Program**	
Meet Demonstrated Need	Demonstrated need will be estimated ahead of the opening of the application process through demand surveys. If anticipated demand is far higher than capacity, the anticipated average size of each grant award may be reduced.

Exhibit A.2 Anticipated Performance Measures of the CSFCE Grant Program	
	Actual demand will be measured by tracking the number of applicants and total volume of financial assistance requested by the applicants. Initial measurement will be made at the time of the first round of available financial assistance. In the case of second or subsequent rounds (if less than all available assistance is awarded, and/or as funds are "recycled") the measurements will be made again.
Provide Cost-Effective Program	Will be measured by tracking CSFCE Grant Program costs, as well as financing fees and interest costs, and comparing these cumulative costs to alternative forms of financing of similar size and duration. In the case of avoided security deposits for facility leases, will be measured and documented in consultation with participating charter schools.
Serve Charter Schools with a Likelihood of Success	Will be measured prior to selection by examining the track record of charter school applicants (e.g., enrollment trends, charter renewal history, financial performance, organizational capacity). Will be measured over time through on-going reporting from participating charter schools on the key performance metrics considered by the program.
Serve High-Need Charter Schools	Will be measured by the degree to which selected applicants score highly in the CSFCE Grant Program's preference points designed to prioritize school choice in the areas of greatest need.

PART B - INVOLVEMENT OF CHARTER SCHOOLS

I. Demonstrated Understanding of the Needs of California Charter Schools

Since 2002 and the inception of the Authority's first charter related program, the Charter School Facilities Program, the Authority has proven itself to be a capable entity that continues to play a crucial role in establishing robust programs to support charter schools in their efforts to secure adequate funding for school facilities in California. The charter school programs that the Authority oversees have enabled charter schools to expand educational opportunities in traditionally underserved communities of California. The Authority collaborates with charter school operators, constituents, legal advisors, finance experts and other stakeholder as we develop regulations, providing diverse stakeholders the opportunity to comment on the proposed program criteria and processes prior to finalizing program regulations. Once the Authority board has approved regulations, these are distributed to interested parties for a 45-day public comment period. Based on an assessment of all public comments and potential revisions to the proposed regulatory language, the rulemaking file may be re-distributed for an additional 15-day public comment period prior to adoption of the final version of the text. This process ensures consensus from the charter school community and the schools the Authority serves. The Authority will utilize this same approach when implementing the Charter School Facilities Credit Enhancement Program (Program).

II. <u>Support from the California Charter School Community</u>

The success of the Authority in creating and expanding financing opportunities for California's charter schools is a direct result of the high level of involvement that the charter school community has had in the program creation and the implementation process. The Authority, lawmakers, charter school stakeholders and capital market participants work collaboratively as programs are developed and refined, and funds are allocated. The Authority will continue this level of engagement as it implements the Program.

[redacted]

exempt and taxable bonds; and 11) the [redacted] Charter Finance Enhancement (Charter FinE) program.

The development of these many Authority charter school programs has been consistent and effective because of early and thorough engagement with different agencies and charter school stakeholders regarding program criteria and design. This includes state government agencies, capital market participants, charter management organizations, and school choice and charter advocates. In further evidence of continued engagement, the Authority has provided support letters as Attachment L.

PART C – THE AUTHORITY'S EXPERTISE & CAPACITY IN FINANCING AND GUARANTEE PROGRAMS

The Authority has assembled a team of professionals bringing an extensive range of expertise in the area of capital market financing, with specific and unique charter school facilities financing experience averaging over 10 years each. Team members from state agencies, including senior professionals from the Authority, the State Attorney General's Office, and the Public Finance Division (PFD) of the State Treasurer's Office (STO), and experienced advisory and financing counsel firms will implement and administer the new grant program. As with all the Authority programs, members of California's charter school community and other stakeholders will provide input as the Authority rolls out this next phase of its CSFCE Grant Program, including its policies and procedures for: evaluating creditworthiness of program participants; criteria for receipt of program guarantees; risk rating and monitoring; internal financial management; and risk mitigation processes.

The level of experience of staff and consultants working with the Authority is extensive. These individuals include experts in finance and consultants who have been involved in the charter school movement since its inception and are knowledgeable about all aspects of charter schools, including financing, construction, and operating issues, as well as federal and state policies and procedures, prudent investment, debt, and risk management. The principal Authority and STO staff members who will be working on this program each possess 10 – 20 years of experience, and are familiar with education finance, charter school facilities, and charter school policy issues, in general, as well as financial management, portfolio monitoring, investment of public funds, and risk mitigation processes and practices. Summaries of team members' expertise are below, and the resumes of key program team members are in Attachment E.

I. California School Finance Authority

Created in 1985, the Authority provides tax-exempt, low-cost financing to charter schools, school districts, community college districts, and county offices of education for use in repair and construction of school facilities as well as providing financing for working capital. The Authority's Executive Director, Katrina Johantgen, has more than 30 years of municipal finance experience, having served as an investment banker and financial advisor for nearly a decade and with the Authority for nearly 23 years. During her tenure with the Authority, Ms. Johantgen has been instrumental in creating and expanding financing opportunities for California charter schools. Most notably, Ms. Johantgen has overseen the Authority's programs, policies, and procedures underlying [redacted] in funding and financing to assist California charter schools and school districts with development, facility financing, and operation. Ms. Johantgen brings the financing, policymaking, portfolio monitoring, financial management and risk mitigation expertise to administer this federal credit enhancement grant consistent with federal guidelines and policy objectives. Ms. Johantgen oversees the administration of six federal grants; therefore, she possesses a keen understanding of federal compliance and monitoring, reporting, audit procedures, match requirements, and investment guidelines. Through the administration of these successful programs in California, Ms. Johantgen has developed strong working relationships with the team within the United States Department of Education and its consultants.

Ms. Johantgen will direct and work with Authority staff, which is comprised of 10 professionals and two support staff, to implement the expanded CSFCE Grant Program. General Counsel to the State Treasurer, Theodore Ballmer, will continue to work closely with the Authority to support program compliance with federal and state law and regulations. Mr. Ballmer has provided legal and programmatic advice to the Authority since April 2022 and will be an integral part of the successful implementation of the new Program. Mr. Ballmer played a vital role with the Authority's most recent CE programs, Charter ABLE and Charter FinE. Ms. Johantgen also will be supported by Mita Parikh, Ryan Storey and the other organizations and individuals noted below.

Ms. Parikh has over 7 years of experience in the Public Finance and Conduit Financing sector, including work at the State Treasurer's Office, Public Finance Division, prior to joining the Authority. She currently oversees the Authority's Conduit Financing Program. Mr. Storey has been with the Authority since October 2016, and in his current management position since February 2023. He has extensive programmatic experience with many of the Authority's programs, including the Authority's credit enhancement programs. He also oversees the

Authority's regulatory actions and legislative efforts.

The Authority’s *Project Staffing and Implementation Plan* will enable initial funds under the expanded CSFCE Grant Program to be disbursed by summer 2024, assuming a fall 2023 award notification. Authority staff will focus its primary attention on program regulations and charter community outreach regarding the new program as an initial step. See Part B – Charter School Involvement, for additional details. The Authority already established three CE grant and the same core team will also administer the expanded CSFCE Grant Program; therefore, the learning curve and timing of implementing the program will be expedited.

II. The California State Attorney General’s Office

The California State Attorney General’s (AG's) Office will be involved with the implementation of CSFCE Grant Program as issuer’s counsel to the Authority. The AG is the State's top lawyer and law enforcement official, protecting and serving the people and interests of California through a broad range of duties. The AG's responsibilities include safeguarding the public from violent criminals, preserving California's spectacular natural resources, enforcing civil rights laws, and helping victims of identity theft, mortgage-related fraud, illegal business practices, and other consumer crimes. The AG’s Office participates in the administration of programs that fulfill the fiduciary responsibilities of the State Treasurer, including, but not limited to, issuance of State of California general obligation bonds, revenue anticipation notes, specific revenue bonds, and other transactions for state authorities, boards and commissions, including the Authority.

III. State Treasurer’s Office – Public Finance Division

The STO Public Finance Division (PFD) also will be actively involved in the implementation of the expanded CSFCE Grant Program. PFD administers programs that carry out the fiduciary responsibilities of the State Treasurer, including, but not limited to, issuance of State of California General Obligation (GO) Bonds, revenue anticipation notes, certain revenue bonds, and other transactions for state authorities, boards and commissions, including the Authority’s. PFD also directs compliance with federal tax laws applicable to state debt. Additionally, PFD has extensive responsibilities and experience in performing the functions of Agent for Sale for conduit and other state bond financings including but not limited to the following: disseminating financial information to the investment community; providing on-going communication with investors; and researching and responding to inquiries from investors. As Agent for Sale for all State of California Bonds, the STO is consistently among the highest volume bond issuers in the nation.

IV. Stakeholders and Advisors

The Authority has assembled a team of advisors to assist in the implementation of CSFCE. The team is comprised of seasoned professionals from stakeholder organizations and the advisory and legal fields, including a former Chief Deputy State Treasurer, a long-serving municipal financial advisor to the Authority, as well as attorneys with the State's leading bond and tax counsel firm.

a. California Charter Schools Association

The California Charter Schools Association (CCSA) advances the charter school movement through state and local advocacy, leadership on accountability, and resources for member schools. CCSA is a trusted source of data and information on California's charter schools for parents, authorizers, legislators, the press and other interested groups. CCSA runs a comprehensive portfolio of programs and services for operating charter schools, charter development teams, charter support organizations, charter-friendly businesses, and charter professionals. CCSA's mission statement is "to meet parent, educator, and community need for great public school options by supporting and advocating for high quality non-profit charter schools and sharing their success throughout California's public schools." Myrna Castrejón, President and Chief Executive Officer, has managed the membership organization representing California's public charter schools since January 2019. Prior to assuming the role of President and CEO, she served for nearly three years as the Founding Executive Director of Great Public Schools Now, an organization created in 2015. As the Executive Director, Myrna led Great Public Schools Now's strategy to transform public education in Los Angeles by expanding high-quality public schools of diverse governance models in the areas most in need of support. Before that assignment, Myrna worked at the California Charter Schools Association (CCSA) in various key leadership roles since its founding in late 2003, leading the government affairs, local advocacy, quality, school development, and research and evaluation portfolios at various times. Her work with CCSA was preceded by a decade in school reform efforts in Texas and Los Angeles.

b. Charter Schools Development Center

Founded in 1992, the Charter Schools Development Center (CSDC) is the nation's oldest charter support organization and remains the most comprehensive leadership training and resource center for charter schools anywhere in the country. CSDC's leadership training programs, resources, publications, consulting, and membership program offer California charter schools over 30 years of experience in charter school development, operational support, and advocacy. CSDC is recognized as the leading expert in California charter school policy, finance, operations, governance, accountability, and development.

CSDC's Executive Director and Founder, Eric Premack, has played a leading role in the development and spread of the chartered school's concept since its inception in his native Minnesota in the 1980s. Eric helped to draft and implement chartered schools' legislation and policies in over 25 states, at the federal level, and overseas. Premack was a co-founder of the Charter Friends National Network, a founding board member of the California Network of Educational Charters (now the California Charter Schools Association), served on the California State Superintendent's Charter School Advisory Committee (now the Advisory Commission on Charter Schools), serves on the board of Civicorps Inc., and served as founding vice-chair of the Board of St. HOPE (Helping Others Pursue Excellence) Public Schools. Prior to founding CSDC, Eric provided consulting services to hundreds of California school districts at School Services of California, Inc., and was a non-partisan education policy analyst for the California Legislature's Office of the Legislative Analyst.

c. Montague DeRose and Associates, LLC

The Authority has engaged the services of Montague DeRose and Associates, LLC (MDA), a municipal financial advisor, to assist in the implementation of its expanded CSFCE Grant Program. Founded in 1995, MDA is a full-service, California-based, independent financial advisory firm committed solely to public finance, with offices in Westlake Village and Walnut

[redacted]

Mr. Michael D. Kremer, Managing Director, has an extensive amount of education finance experience, including providing investment banking and financial advisory services on numerous debt issues for educational agencies in California. He has over 25 years of experience in municipal finance through his roles as municipal advisor, investment banker and credit analyst. Mr. Kremer has particular expertise with K-14 schools and other local agencies throughout the

State of California. He specializes in preparing debt capacity/affordability reports and financial feasibility analyses, developing financing plans for large scale, multi-year capital improvement plans, and preparing debt policies and credit presentations for his municipal advisory clients. Mr. Kremer has served as a financial advisor to the Authority since April 2003 when Proposition 47 bond proceeds were first apportioned to charter schools under the Charter Schools Facilities Program (CSFP). He served as program manager for the Charter School Working Capital Program in 2012 and 2013 which provided cash flow loans to California charter schools from working capital notes issued by the Authority. In 2017 and 2018, Mr. Kremer assisted with the Authority's PANACEA credit enhancement grant program by advising on regulations and facilitating lenders for the short-term CSFP financings. Mr. Kremer also has assisted Authority staff with administration of the Charter School Revolving Loan Fund Program by updating the financial model used to assess the creditworthiness of loan applications and by refining loan repayment schedules and processes to keep loan losses at acceptable levels.

Most recently, Mr. Kremer assisted the Authority and the State Treasurer's Office with development of the Advances on State Aid Payments (ASAP) Program Notes in response to the deferrals of state principal apportionments imposed on charter schools in fiscal year 2020-21. The ASAP Program Notes financed the deferred principal apportionments of 62 non-profit charter schools operating as 40 distinct borrowers located in 22 California counties. The Notes were secured by (1) each borrower's pledge of its financed deferred apportionments ; (2) reserve funds from [redacted] of CSFA's 2019 federal credit enhancement grant and a portion of Note proceeds; and (3) irrevocable letters of credit issued by Citibank, N.A. and Royal Bank of Canada (RBC). The $[redacted] of Notes were issued on March 30, 2021 and matured on December 30, 2021.

d. <u>IMPACTS USA Advisory Services</u>

IMPACTS USA (IMPACTS) is a network of experienced advisors crafting management and financial solutions for leaders of governmental, non-profit, and development organizations. IMPACTS focuses on issues at the nexus of public policy, infrastructure, social impacts and the capital markets. Barbara A. Lloyd, Founder and Chief Executive Officer of IMPACTS, is a veteran of government, public finance, infrastructure, and capital markets. Ms. Lloyd assisted the Authority with the 2017 New Enhancement/Incentives Grant application, including design of the Authority's PANACEA Program as well Charter ABLE and Charter FinE. Her strengths include new program development and management; innovative financing strategies and solutions; state and local capital finance transactions; policy analysis and decision-making; and organizational leadership and communication. Ms. Lloyd is known for her ability to structure complex transactions in the public interest. Her company's current and past educational engagements, in addition to the Authority, include projects for the University of California, Davis; College of the Desert; University of California, Riverside (UCR); Cal Poly Pomona; and the University of Kansas. Additional members of the IMPACTS Team available to the Authority include Jeanne Peterson, a national expert on affordable housing; Joshua Ramirez, who managed our procurement support services for UCR and is an experienced grant writer and compliance support professional, as well as Victoria Taylor and Shesi Xie, both of whom are senior financial advisory professionals with experience across multiple public infrastructure sectors.

PART D - LEVERAGING MULTIPLE FORMS OF ASSISTANCE

Borrowers are able to obtain multiple forms of financial assistance through the Authority's various programs, to address a range of needs and maturity levels of the participating charter schools. The existing Program has a goal of a minimum leverage of approximately 14.5:1 (assuming a Reserve is not more than 10 percent of the loan amount), before accounting for future grant recycling. For the facility lease guarantee structure, the Authority is projecting a minimum leverage of approximately 5:1, before accounting for future grant recycling.

The Program also will continue to leverage the existing knowledge and institutional infrastructure of the Authority and other offices within the STO, which will enable the grant to be put to use quickly. For the debt service reserve fund structure, no additional regulatory approval process to expand the existing Program would be needed, so eligible Charter Schools could submit applications within 30 days of an executed grant agreement. Award approval and funding would be expected to begin within 90 days thereafter

For the facility lease guarantee structure, it is anticipated the regulatory approval process could be completed in early 2024, so eligible Charter Schools could submit applications in summer 2024. Award approval and funding would be expected to begin within 90 days thereafter.

Furthermore, the Authority will continue its work with public and private lenders as well as other funders to develop compatible funding and financing mechanisms for charter school facility projects. Lastly, the strengths of the Authority's experience and institutional knowledge would enable the Program to continue to "scale upward" whenever additional grant funds are made available, whether from federal, state, local, or private sources.

PART E - THE AUTHORITY'S EXPERTISE IN EDUCATION AND CHARTER SCHOOLS FACILITIES

The Authority has the expertise and capacity to implement the Charter School Facilities Credit Enhancement Grant Program (Program) set forth in this Application. Below we have highlighted the strengths and expertise of the Authority that demonstrate its ability to execute a successful federally-funded credit enhancement program for charter schools.

I. Authority Background

The Authority was created in 1985 to provide facility and working capital financing to California school districts and community college districts, and subsequently for charter schools. The Authority consists of three Board Members: Fiona Ma, California State Treasurer, serving as Chair; Tony Thurmond, Superintendent of Public Instruction, overseeing the California Department of Education (CDE); and Joe Stephenshaw, Director of Finance. The Authority maintains offices in Sacramento and Los Angeles, enabling the Authority staff to provide services more effectively to constituents throughout the State.

With the passage of California's Charter School Act of 1992, charter schools have become a viable option for parents, students, and educators seeking choice in education. As of the 2022-23 school year, CDE reported that more than 1,250 charter schools serve over 690,000 California public school students. Since its inception, the Authority has implemented several financing programs to address the needs of its stakeholders. Recognizing that charter schools need access to low-cost, tax-exempt financing for facilities and working capital – as do their traditional public-school counterparts – Authority staff spearheaded a legislative amendment to its statute to provide financing opportunities to charter schools. Assembly Bill 2717 (Walters) was signed into law on September 18, 2006. Effective January 1, 2007, the Authority was authorized to issue debt on behalf of charter schools and provide them other forms of financial assistance.

II. Management Experience and Track Record with Other Federal Programs

In 2004, 2009, and 2014, the Authority applied for and was awarded federal grants under the United States Department of Education's State Charter School Facilities Incentive Grants Program (Incentive Grants Program) to assist charter schools in meeting their facility needs. To date, the Incentive Grants Program has awarded nearly [redacted] through 15 rounds, assisting over 430 schools and serving approximately 177,000 students. The Incentive Grants Program is designed to fund those charter schools that demonstrate the most need. The Authority designed a 110-point preference point matrix based around the following: (1) the number of low-income students at the school who are eligible for free and/or reduced priced meals; (2) the level of overcrowding the charter school's district is experiencing; (3) whether the charter school is being operated by a non-profit entity; and (4) whether the charter school met student performance standards. Charter schools may use the grant funds to pay a portion of their rent, lease or debt service payments, or to fund the cost of acquiring, renovating or constructing new facilities. Round 15 remains to be completed, with the latest program Grant fully disbursed as of this date.

[redacted]

financings, and assisting nine schools. In 2019, the Authority applied and was awarded a $[redacted] grant for the Charter Access to Bank Loan Enhancement (Charter ABLE) Program. These funds are intended to enhance interim financing for planning, purchase, or predevelopment through the Authority's Bank Loan Program. With the approval of the Department of Education, the Authority used funds from Charter ABLE to provide much need aid to both traditional and charter school during the budgetary issues that called for temporary deferral payments to all schools due to the far-reaching impact of the COVID-19 pandemic. The Access to State Aid Payments (ASAP) Program was able to leverage [redacted] at nearly 10:1 ratio, enhancing $[redacted] This $[redacted] reverted back to the Authority for its intent use in December 2021. Including the ASAP Program, Charter ABLE exceeded its leverage goal of 10:1 set out in our performance agreement, with an actual leverage ratio of more than 17:1, enhancing nearly [redacted] in bond and note financings and assisting 17 schools. Together, all three programs have assisted more than 50,000 students. In 2021, the Authority won a $[redacted] grant award to establish the Charter Finance Enhancement (FinE) program. This program's performance agreement is currently in the review process. Considering the historical application rate and current financing levels, the Authority expects Charter FinE to exhaust all the award funds by mid-2024 if not earlier. The Authority's most recent annual performance report is included as Attachment F.

III. Standards of Conduct

As stewards of state and federal funds, the Authority's standards of conduct, including avoidance of conflicts of interest, are adhered to closely. As a California state agency, the Authority and its management personnel must comply with the State's Political Reform Act, a copy of which has been provided as Attachment G. Briefly, the Act requires that all governmental officials involved in governmental decision-making must disclose all sources of income, investments, and gifts and prohibits such officials from participating in, making, or attempting to influence decisions in which they have a financial interest. The Act also provides for civil and criminal penalties in the case of a violation.

IV. Credit Ratings

The Authority does not have a credit rating, and conduit financings of the Authority have been rated based on the credit quality of the borrower and the security provisions of the individual financings. Because debt service will be secured by intercepted funds coming directly from the State, rating agencies are expected to have confidence in timely repayment and therefore offer strong credit ratings. The anticipated investment grade credit ratings will offer lower borrowing costs on participating Authority financings. The State of California's recent long-term General Obligation (GO) bonds ratings are "AA-" from Standard and Poor's ,"Aa2" from Moody's Investor Service, and "AA" from Fitch Ratings. Information on the State's long-term credit rating have been attached as Attachment H.1, H.2, and H.3 for your consideration.

V. Financial Stability and Financial Statements

The Authority receives revenues from state and federal sources, as well as generates revenue via bond and grant application and issuance fees. The Authority's local assistance funds disbursed through its programs are continuously appropriated; therefore, there is no interruption in the availability or amounts awarded to charter schools in the event of delays in the adoption of a state budget. This distinction allows for consistent outflows of critical funding without the need for annual legislative approval. The Authority receives an annual appropriation from the state legislature to fund program administrative costs to ensure adequate resources. The Authority's financial stability, and that of the Program, are demonstrated within the Authority's annual audits and the Financial Projections (cash flow pro formas) provided with this Application, respectively. As a related entity to the State of California, the Authority is subject to an annual Single Audit. The Authority's Audited Financial Statements for FY 2019, FY 2020 and FY 2021 are found as attachments to the application for your consideration. The Authority's audits are free from any material findings. These audits are provided as Attachment I.1, I.2, and I.3, respectively. The Authority is currently finalizing its FY 2022 audit. The program Financial Projections (cash flow pro formas) are provided as Attachment J.

VI. Enabling Statutes and Current Regulations

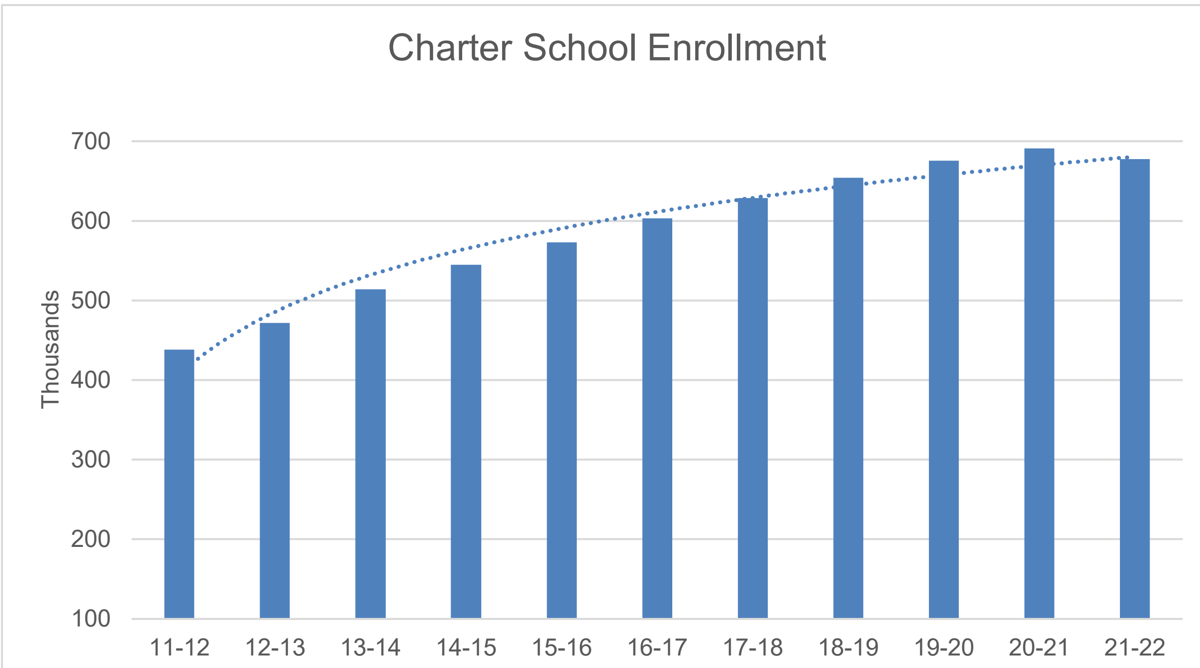
The Authority's enabling statute, Education Code Sections 17170 through 17199.6, has been provided as Attachment K to the application. The Authority's enabling statue also establishes the Authority's Conduit Bond and Note Program. Approval of new regulations for the Program would follow the process described in Part B – Involvement of Charter Schools, above.

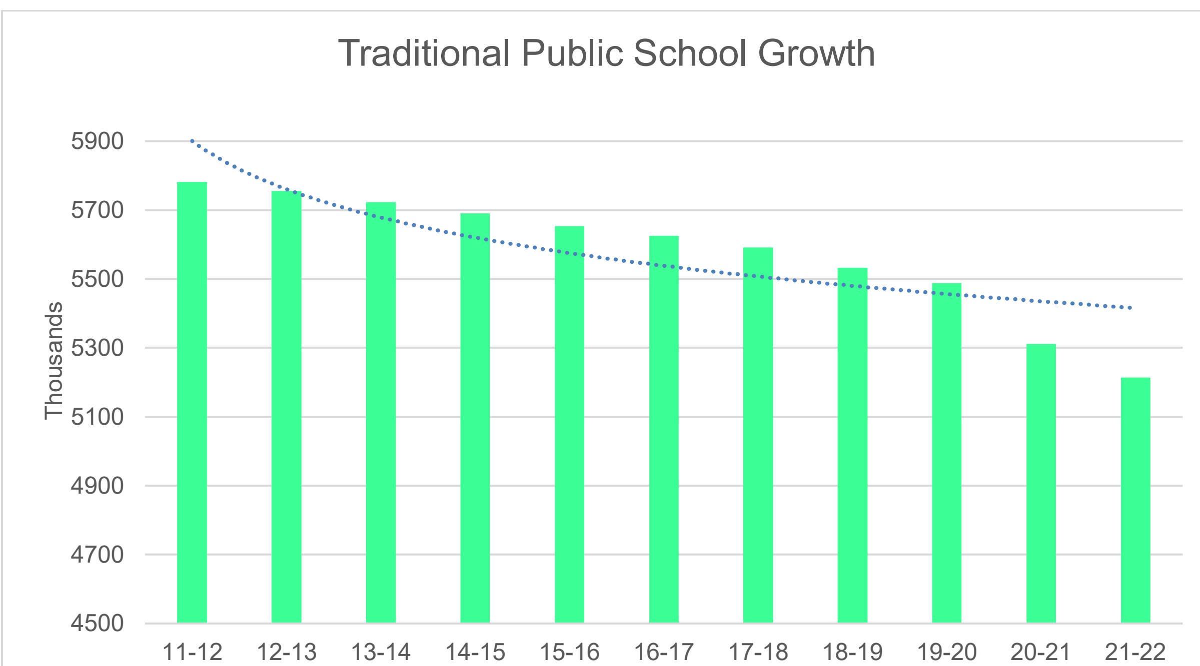
PART F - STATE ACTIONS TO PROVIDE ADEQUATE CHARTER SCHOOL FACILITIES

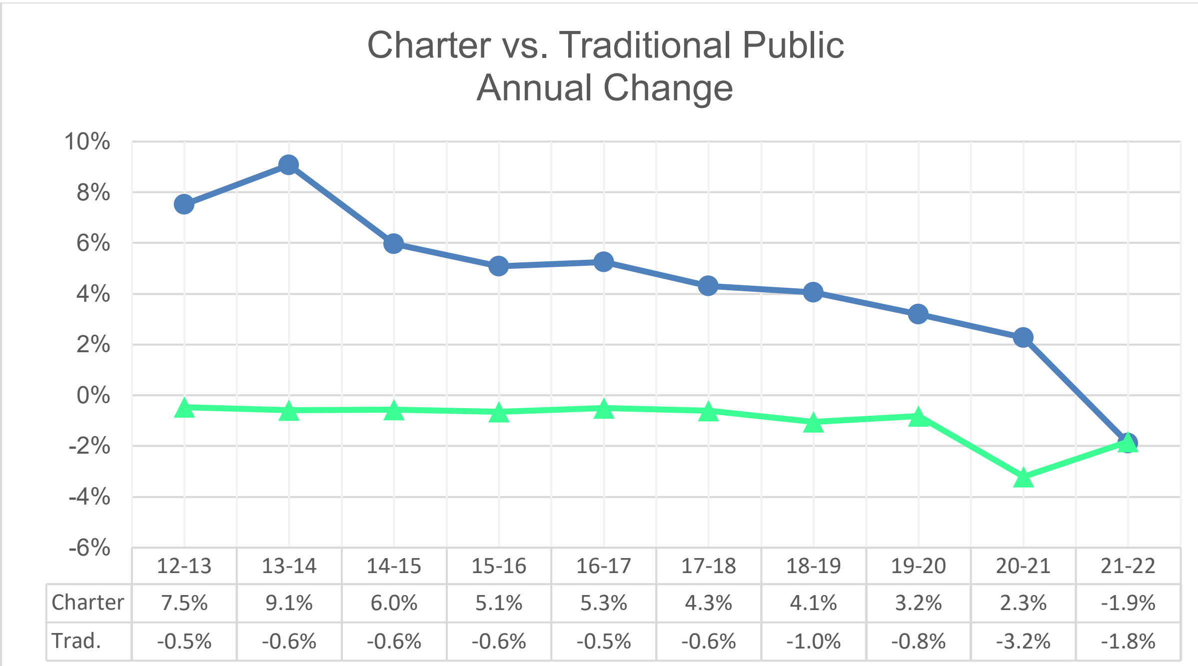
I. General Funding of Charter Schools in California

California adopted its charter school legislation in 1992, becoming the second state in the nation to do so. Since California's charter school law was passed, charter schools have rapidly grown in popularity. As of the 2021-22 school year (FY 2022) which is the most recent with complete information for California's public education system, there were 1,292 charter schools educating approximately 677,000 students in California, compared to the roughly 10,660 traditional schools serving approximately 5.2 million children. As a percentage of the total student population, charter school enrollment has increased from 7.6 percent in FY 2012 to 13.0 percent in FY 2022, with the average of those years at approximately 11.0 percent. Enrollment in Charter Schools has increased by 54.5 percent since FY 2012, with an average increase of 4.5 percent annually. Enrollment at traditional schools lost 9.8 percent over the same 10-year period, with an average decline of 1.0 percent annually.

In FY 2022, charters averaged about 524 students per school relative to an average of about 489 students for a 5traditional school. The charts below and on the following page illustrate the changes in enrollment at both charter schools and traditional public schools in California. Each are provided with a trendline. It comes as no surprise to California educators that charter schools' access to suitable facilities has been a challenge in light of such expansion.







California's charter schools are funded much like other non-charter California public schools. The schools receive funding from local property taxes, state education aid programs, the California Lottery, the federal government, fundraising, and other sources. They are prohibited from charging tuition and may charge fees only for a short list of items to the same extent as may non-charter public schools. The following table illustrates the primary elements of California's Local Control Funding Formula funding system.

Base Grant Funding, *EC* Section 42238.02(d)

Grade Span	2021-22 Base Grant / ADA	2022-23 Adjusted Base Grant / ADA	Supplemental Grant for Low Income and English Learners	Concentration Grant for Low Income and English Learners
TK-3	[redacted]		Additional [redacted] percent augmentation to amounts for high-need pupil count that does not exceed [redacted] percent	Additional [redacted] percent augmentation to amounts for high-need pupil count in excess of [redacted] percent
4-6				
7-8				
9-12				

Source: California Department of Education (https://www.cde.ca.gov/fg/aa/pa/pa2223rates.asp)

Transitional Kindergarten Add-on Funding, *EC* Section 42238.02(g)(2)

School districts and charter schools will receive an add-on to the LCFF entitlement equal to the

Transitional Kindergarten (TK) add-on rate multiplied by the local educational agency's (LEA's) current year TK average daily attendance (ADA).

Transitional Kindergarten Add-on	[redacted]
2022–23 Transitional Kindergarten Add-on per ADA Rate	

Source: California Department of Education (https://www.cde.ca.gov/fg/aa/pa/pa2223rates.asp)

This funding approach greatly simplifies charter schools' financial affairs and provides the schools with a largely deregulated, "no strings attached" share of state aid that is comparable with funding for non-charter public schools. In addition to these basic funding entitlements, charter schools may (1) apply for funding from federal education aid programs, (2) receive a proportionate share of funding from the California Lottery, and (3) apply for funding from several special state sources, that are not included in the above-referenced block grants, which could increase revenue per ADA by an additional $[redacted] or more.

California has taken care to ensure that charter schools have a high degree of fiscal autonomy and flexibility. Charter schools may opt to apply for and receive their state and federal funding either in partnership with their local school district (local/indirect funding) or independently (direct funding). California has also designed a special advance apportionment process to ensure that new and growing charter schools receive their funding early in the school year to reduce the need for costly short-term borrowing.

II. <u>Facility Funding of Charter Schools in California</u>

Currently, most of California's charter schools have no readily available source of facility funding, which has proven to be one of the largest obstacles to starting a charter school. Like traditional public schools, if a charter school wants to raise capital beyond state and local operational funding levels to meet its facility needs, it must raise the funds from philanthropic sources or borrow funds at costly rates with financially restrictive terms, when and if willing lenders can be found. However, unlike their school district counterparts, charter schools are not permitted to finance facilities by seeking voter approval for the issuance of tax-exempt debt repaid from increased taxes and must use operational funding to pay for debt service or lease payments on facilities occupied but not owned.

Additionally, school districts in California can seek voter approval for non-ad valorem taxes (parcel taxes) to fund operating costs. In most cases, voter approval is not required for school districts to levy so- called "developer fees" on new residential and commercial construction to offset the cost of school facilities for new communities or to issue debt in the form of lease-backed obligations (lease revenue bonds and certificates of participation). These mechanisms are generally not available to charter schools.

Despite "boom-and-bust" state budget cycles over the last two decades, and a state constitution that severely restricts the ability of state and local agencies to levy additional taxes, the State Legislature and the voters of California have adopted/endorsed a multi-faceted approach to assist charter schools in meeting their facilities needs in the form of grant, loan, and bond financing programs. Whereas California's commitment to funding charter schools is arguably one of the most comprehensive efforts in the nation, most of these programs have traditionally been oversubscribed, and charter schools continue to face significant hurdles to securing facilities. Below we have highlighted the authorizing legislation and programs providing funds for charter school facilities in the State of California. The Authority fulfills a critical role in each of these programs.

[redacted]

Charter School Bank Loan Program: This program was established in 2018 to encourage banks and other financial institutions to fund low-cost loans to charter schools seeking financing for working capital, permanent facility acquisition or renovations. The Authority worked with banks, schools, and other stakeholders to develop and promote CSBLP's product offerings. The Authority's first transaction through the CSBLP took place in July 2018. To date, the Authority has issued approximately $[redacted] through twelve transactions.

Proposition 39 Facilities: This proposition, adopted by voters in November 2000, requires school districts to provide charter schools having a projected average daily attendance of at least 80 students with reasonably equivalent facilities to those provided to other public school students in the area where the charter school students reside. This measure took effect on November 8, 2003, generally requiring all California school districts to provide facilities to charter schools that meet the requirements of the regulations. To qualify for Prop 39 facilities a charter school must be "operating in the school district," which is defined as either (1) currently providing education to in-district students or (2) having identified 80 students who are meaningfully interested in enrolling in the charter school for the following year. The school district may charge the charter school a pro-rata share of the district's facilities costs, which are paid with unrestricted general fund revenues, based upon the ratio of space the charter school uses divided by the total space of the district.

Charter School Facilities Grant Program (SB 740): This funding program was enacted by Senate Bill 740 (Chapter 892, Statutes of 2001, Education Code Section 47614.5) for the purpose of providing per-pupil facilities funding for charter schools in low-income areas. Eligible charter schools may receive reimbursement for facilities rent and lease costs in an amount per unit of ADA, but no more than 75 percent of their total annual facilities rent and lease costs. For the FY 2023 funding round, the amount provided per unit of ADA is $[redacted] and increases in conjunction with the annual Cost of Living Allowance increase each year as statutorily prescribed.

This program is targeted toward schools serving high proportions of economically-disadvantaged students. Only schools that either serve a student population with a high proportion (55 percent or higher) of free/reduced price meal-eligible students or are physically located in the attendance area of a public elementary school in which 55 percent or more of pupil enrollment is eligible for free or reduced-price lunches are eligible for funding from this lease aid program. The determination of free or reduced-price lunches is made by the California Department of Education and is consistent with the U.S. Department of Agriculture Eligibility Manual for School Meals. Since assuming Program administration in 2013, the Authority has taken significant steps to improve the quality and participation of the Program. The Authority's administration of the Charter School Facility Grant Program has resulted in an increase of funding to charter schools from [redacted] in 2011-12 to $[redacted] in 2022-23. Since 2013, the Program has seen a 52% increase in Awardees, from 264 awardees in FY 2013 to 401 awardees in FY 2023, serving approximately 150,000 students throughout California.

Charter School Revolving Loan Fund Program: This Program was enacted by Senate Bill (SB) 1759. Pursuant to California Education Code sections 41365, 41366.5, 41366.7 and 41367, the Program provides low-interest loans of up to [redacted] to new charter schools to assist meeting the purposes of the school's approved charter. The interest rate of the loan is set at the earning rate of California's Pooled Money Investment Account (PMIA) on the date of loan disbursement. The Program is available to any charter school that is not a conversion of an existing public school, and that has not yet completed the full term of its initial charter. In the 2013-14 fiscal year, the Program administration was transferred from the California Department of Education (CDE) to the Authority. Since the transfer of the Program, the Authority has lent about [redacted] to more than 230 charter schools.

State Charter School Facilities Incentive Grants Program: In 2004, the Authority was awarded a $[redacted] federal grant under the United States Department of Education's State Charter School Facilities Incentive Grants Program (Federal Grant Program) to assist charter schools in meeting their facility needs. The Federal Grant Program is designed to fund those charter schools that demonstrate the most need. The Authority designed a 110-point preference point matrix based on the following: (1) the number of students at the school who are eligible for free and/or reduced priced meals; (2) the level of overcrowding the charter school's district is experiencing; and (3) whether the charter school is operated by a non-profit entity. Charter schools may use the grant funds to pay a portion of their rent, lease or debt service payments, or to fund the cost of acquiring, renovating or constructing new facilities. Following the successful implementation and completion of th[redacted]uthority applied and was award additional grants in 2009 [redacted] To date, 15 funding rounds have been conducted and over 430 charter schools, serving approximately 177,000 students, have been awarded more than $[redacted] final funding round was completed in mid-2022.

Conduit Financing Programs Available for Charter Schools: Due to their corporate structure and low amounts of discretionary operating revenues, charter schools have had difficulty raising capital to finance facilities. Charter schools have generally relied upon a small number of private lenders that understand the inherent credit issues faced by charter schools, such as comparatively smaller enrollment, charter renewal risk and the limited financial flexibility to fund unforeseen costs. While the interest rates charged by these lenders are significantly higher than the interest rates paid by traditional public schools, these lenders offer an alternative considered by some charter schools, since the capital needs of charter schools in California continue to far exceed the supply of funds made available by the state programs previously described.

Charter schools operated by nonprofit public benefit corporations organized as 501(c)(3) nonprofit corporations may legally borrow the proceeds of a tax-exempt financing issued by a governmental entity or special authority. Charter schools participating in the Authority's California Charter School Conduit Financing Program (Conduit Financing Program) are required to pledge an intercept of a portion of their per-pupil revenue from the State, but not local sources, in order to secure the school's share of debt service due on the Authority's conduit debt. The intercept mechanism acts as a form of credit enhancement, which may be used as either a standby in the case of non- payment by the district, or as an automatic schedule of payments. The Authority now serves as a very active conduit issuer on behalf of nonprofit charter schools to provide them access to the capital markets. The Authority's low-cost fee structure, its intercept mechanism, and its no-cost, state-level Tax Equity and Fiscal Responsibility Act (TEFRA) hearing process has made the Authority the issuer of choice for creditworthy charter schools throughout the State. Since 2010, the Authority has issued more than [redacted] in bonds to provide low-cost, fixed rate financing through the submission of this application.

Project Acceleration Notes and Credit Enhancement Alternatives (PANACEA) Program: This program is a federally funded grant program for which the Authority received an award in 2017 providing a total of $[redacted] in credit enhancement grants to fund interim financing for planning, purchase, or predevelopment construction while charter schools are awaiting release of funds from the Charter School Facilities Program or Conduit Financing Program. The program officially launched in late 2018. To date, a majority of program funds have been awarded to enhance more than [redacted] in financings with a leverage ratio greater than 29:1.

Qualified Public Education Facility (QPEF) Bond Program: This program provides tax-exempt, private activity bond allocation to state and local bond-issuing agencies to provide public elementary and secondary schools with financing for the construction or improvement of their facilities. These bonds are designed to provide tax- exempt conduit financing for turnkey private development of public elementary and secondary school facilities. The Authority serves as the issuer and facilitator of QPEF Bond Program bonds in California, with the authority to allocate a portion to other parties.

Charter ABLE: This program is a federally funded grant program for which the Authority received an award in 2019, providing a total of [redacted] in credit enhancement grants to fund interim financing for planning, purchase, or predevelopment construction financed through the CSBLP.

The program officially launched in 2020. The Authority was able to work with Department of Education to use Charter ABLE funds to establish the two programs below. This was due to financial fallout from COVID-19 that significantly affected schools and districts. The grant funds reverted to their traditional use in early 2022. To date, a majority of program funds have been awarded to enhance more than [redacted] in financings with a leverage ratio greater than 17:1. This includes the programs mentioned below.

State Aid Intercept Note (SAIN) Program: The State of California is the primary source of funding available to school and community college districts and county offices of education (Local Education Agency or LEA). Due to the State's revenue constraints of the Fiscal Year 2020-21 state budget, a portion of the apportionments to be paid to LEAs during February to June 2021 were deferred to the months of July through November 2021. These deferrals created a working capital need for many LEAs. The Authority and the State Treasurer's Office created a special tax and revenue anticipation note (TRAN) pooled program to assist these LEAs with their cash flow needs. Unlike traditional school district pooled TRANs, the credit ratings for the SAINs were based on the State of California's ability to repay the SAINs rather than the creditworthiness of the individual school or community college districts. The security for the SAINs were the deferred State apportionments which would be paid by the State Controller's direct transfer of each District's apportionment to the SAINs trustee. It is this direct transfer or intercept from the State Controller which allowed the use of the State's credit as the security for the notes. This avoided a credit rating process for each district and essentially eliminated district disclosure in the offering documents which resulted in savings of both time and cost to the districts. The first offering of notes in the amount of [redacted] were sold in March 2021 and consisted of 24 participating districts located in 15 counties throughout the State. The second offering of $[redacted] was sold in April 2021 and consisted of 16 participants located in 8 counties.

Advances on State Aid Payments (ASAP) Program: Analogous to the SAIN Program discussed above, the Advances on State Aid Payments (ASAP) Program was designed to assist charter schools with cash flow shortfalls due to the State apportionment deferrals in fiscal year 2020-21. The ASAP Program Notes financed the principal apportionment deferrals of 62 non-profit charter schools operating as 40 distinct borrowers located in 22 California counties. These Notes were secured by (1) each borrower's pledge of its financed apportionment deferrals; (2) reserve funds from [redacted] of CSFA's 2019 Federal Credit Enhancement Grant and a portion of note proceeds; and (3) irrevocable letters of credit issued by Citibank, N.A. and Royal Bank of Canada

(RBC). The [redacted] of Notes were rated MIG-1 by Moody's, issued on March 30, 2021 and matured on December 30, 2021. ASAP has issued a total of approximately $[redacted] for 62 charter schools as of the submission of this application.

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PART G - SELECTION CRITERIA – APPLICATION CROSS REFERENCES

<table>
<tr><th colspan="2">Charter School Financing Credit Enhancement CSFCE Grant Program</th></tr>
<tr><th>Selection Criteria & Synopsis</th><th>Application Sections</th></tr>
<tr><td><u>(a) Quality of project design and significance.</u></td><td></td></tr>
<tr><td rowspan="2">(1) The extent to which the grant proposal would provide financing to charter schools at better rates and terms than they can receive absent assistance through the program;</td><td>→ A.II. Proposed Preliminary Terms of the CSFCE Grant Program</td></tr>
<tr><td>→ A.III. Anticipated Benefits of the CSFCE Program</td></tr>
<tr><td colspan="2">Criteria (a)(1) Synopsis: Both proposed purposes under the expanded CSFCE Grant Program would improve rates and terms available to participating charter schools, as noted below:

(i) The Loan Loss Reserve Fund Structure of the CSFCE Grant Program is designed to lower total borrowing amounts and/or improve the creditworthiness of transactions undertaken for Charter School Borrowers, thereby lowering the cost of borrowing compared to alternatives. The Authority also will ensure that transaction costs, interest rate spreads and other fees for transactions associated with the CSFCE Grant Program are reasonable, utilizing data on comparable transactions issued by the Authority and other issuers for which the State Treasurer’s Office is Agent for Sale to negotiate terms, rates and fees.

(ii) The Facility Lease Guaranty Structure of the CSFCE Grant Program is designed to improve access to affordable leases while increasing the schools’ financial stability by utilizing the guaranty instead of costly security deposits. The Authority will document the opportunity cost of the avoided security deposits in consultation with participating charter schools.</td></tr>
<tr><td rowspan="4">(2) The extent to which the project goals, objectives, and timeline are clearly specified, measurable, and appropriate for the purpose of the program;</td><td>→ A.I. Proposed Use of Credit Enhancement Grant Funds</td></tr>
<tr><td>→ A.II. Proposed Preliminary Terms of the CSFCE Grant Program</td></tr>
<tr><td>→ A.III. Anticipated Benefits of the CSFCE Grant Program</td></tr>
<tr><td>→ A.IV. Anticipated Performance Measures (Exhibit A.2)</td></tr>
<tr><td colspan="2">Criteria (a)(2) Synopsis: The stated goals of the CSFCE Grant Program include the following: (1) Meet Demonstrated Need; (2) Provide Cost-effective Program; (3) Serve Charter Schools with a Likelihood of Success; and (4) Serve High-need Charter Schools. The demand will be surveyed during development of the regulations, the cost-effectiveness will be assessed as compared to other financing programs available to charter schools, the charter schools’ likelihood of success and status as high-need will be considered using criteria utilized for other Authority programs.</td></tr>
<tr><td rowspan="3">(3) The extent to which the project implementation plan and activities, including the partnerships established, are likely to achieve measurable objectives that further the purposes of the program;</td><td>→ A.I. Proposed Use of Credit Enhancement Grant Funds</td></tr>
<tr><td>→ A.II. Proposed Preliminary Terms of the CSFCE Grant Program</td></tr>
<tr><td>→ A.IV. Anticipated Performance Measures (Exhibit A.2)</td></tr>
</table>

<table>
<tr><td colspan="2">Criteria (a)(3) Synopsis: The Authority's past experience with implementing prior credit enhancement grant programs with experienced team members serving in the same key roles informs its plans for the proposed CSFCE Grant Program timeline. If a grant is awarded in fall 2023, we expect to complete the regulatory process and open the application process by spring 2024, including outreach and technical assistance workshops, and receive applications starting in June 2042. We would expect Authority Board decisions on inaugural grant awards in early fall 2024. This timeline and the enhanced financings that will occur are the key measurable objectives to be achieved by the program.</td></tr>
<tr><td rowspan="2">(4) The extent to which the project is likely to produce results that are replicable;</td><td>→ A.I. Proposed Use of Credit Enhancement Grant Funds</td></tr>
<tr><td>→ A.III. Anticipated Benefits of the CSFCE Grant Program</td></tr>
<tr><td colspan="2">Criteria (a)(4) Synopsis: The CSFCE Grant Program builds on precedent programs in California that have been successful over many years, thereby demonstrating the ability to replicate the results in California, where the largest number of charter schools are operating, with the largest population of students enrolled.</td></tr>
<tr><td rowspan="3">(5) The extent to which the project will use appropriate criteria for selecting charter schools for assistance and for determining the type and amount of assistance to be given;</td><td>→ A.I. Proposed Use of Credit Enhancement Grant Funds</td></tr>
<tr><td>→ A.II. Proposed Preliminary Terms of the CSFCE Grant Program</td></tr>
<tr><td>→ A.III. Anticipated Benefits of the CSFCE Grant Program</td></tr>
<tr><td colspan="2">Criteria (a)(5) Synopsis: Awards under the CSFCE Grant Program will include an assignment of preference points based on relevant criteria developed through a transparent regulatory process that involves charter schools and chartering agencies in the design of the program parameters.
Precedent criteria include: (1) Traditional schools identified for improvement, corrective action or restructuring under Title I of ESEA as amended by the Every Student Succeeds Act in the geographic region of the applicant; (2) State academic assessments of students compared to those attending traditional schools in the geographic region of the applicant; (3) Number of low-income students qualifying for Free and Reduced-Price Meals.</td></tr>
<tr><td colspan="2">Type of assistance will include: (i) Loan Loss Reserve grants for the applicable type of loan (e.g., an Authority Loan or other Approved or other Loan by a Participating Lender) to be undertaken by the Participating Charter School; and (ii) Facility Lease Guaranty grants for facility leases to be undertaken by the Participating Charter School.</td></tr>
<tr><td rowspan="4">(6) The extent to which the proposed activities will leverage private or public- sector funding and increase the number and variety of charter schools assisted in meeting their facilities needs more than would be accomplished absent the program;</td><td>→ A.I. Proposed Use of Credit Enhancement Grant Funds</td></tr>
<tr><td>→ A.II. Proposed Preliminary Terms of the CSFCE Grant Program</td></tr>
<tr><td>→ A.IV. Anticipated Performance Measures (Exhibit A.2)</td></tr>
<tr><td>→ D. Leveraging Multiple Forms of Assistance</td></tr>
</table>

[redacted]

Other public funding or financing could provide further leverage. For instance, it is possible for Participating Charter Schools to obtain multiple forms of financial assistance through the Authority's various programs, with different programs addressing a range of needs and maturity levels of the Participating Charter Schools. The CSFCE Grant Program also will leverage the existing knowledge and institutional infrastructure of the Authority and other offices within the STO to become operational quickly.	
(7) The extent to which the project will serve charter schools in States with strong charter laws , consistent with the criteria for such laws in section 4303(g)(2) of the ESEA; and	→ A.II. Proposed Preliminary Terms of the CSFCE Grant → F. State Actions to Provide Adequate Charter School Facilities
Criteria (a)(7) Synopsis: In 1992 California became the second state to authorize charter schools. There has been steady growth of charter school enrollment in California. The State now has the largest charter school segment in the US, both in the number of schools and charter school students enrolled. As of the 2021-22 school year (FY 2022) which is the most recent with complete information for California's public education system, there were 1,292 charter schools educating approximately 677,000 students in California, compared to the roughly 10,660 traditional schools serving approximately 5.2 million children. As a percentage of the total student population, charter school enrollment has increased from 7.6 percent in FY 2012 to 13.0 percent in FY 2022, with the average of those years at approximately 11.0 percent. Enrollment in Charter Schools has increased by 54.5 percent since FY 2012, with an average increase of 4.5 percent annually. The State of California allows Charter Schools to be authorized by a Local Education Agency (LEA), County Offices of Education (COE), or the State Board of Education (SBE). California law allows a charter applicant denied by a local school board to appeal to a COE and then to the SBE.	
(8) The extent to which the requested grant amount and the project costs are reasonable in relation to the objectives, design, and potential significance of the project.	→ A.I. Proposed Use of Credit Enhancement Grant Funds → A.II. Proposed Preliminary Terms of the CSFCE Grant Program → A.III. Anticipated Benefits of CSFCE Grant Program → A.IV. Anticipated Performance Measures (Exhibit A.2)
[redacted]	
<u>(b) Quality of project services</u>	
(1) The extent to which the services to be provided by the project reflect the identified needs of the charter schools to be served;	→ A.I. Proposed Use of Credit Enhancement Grant Funds → A.II. Proposed Preliminary Terms of the CSFCE Grant Program

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<tr><td rowspan="2"></td><td>→ A.III. Anticipated Benefits of the CSFCE Grant Program</td></tr>
<tr><td>→ B. Involvement of Charter Schools</td></tr>
<tr><td colspan="2">Criteria (b)(1) Synopsis: The track record of the Authority programs in creating and expanding financing opportunities for California’s charter schools has been consistent and effective, as a result of early and thorough engagement with the charter community on program criteria and design. To date, the Authority has developed seven programs from the ground up. The success of the Authority is a direct result of the high level of involvement that the charter school community has had in program creation and implementation. The Authority will continue this engagement for the expanded CSFCE Grant Program, so that the services to be provided will build on the success of prior programs in meeting the facilities financing needs of California’s charter schools.</td></tr>
<tr><td rowspan="4">(2) The extent to which charter schools and chartering agencies were involved in the design of, and demonstrate support for, the project;</td><td>→ B. Involvement of Charter Schools</td></tr>
<tr><td>→ B.II. Support from the California Charter School Community</td></tr>
<tr><td>→ C.I. California School Finance Authority</td></tr>
<tr><td>→ C.IV. Stakeholders and Advisors</td></tr>
<tr><td colspan="2">Criteria (b)(2) Synopsis: As also noted in response to selection criteria (a)(5), the regulations to implement the CSFCE Grant Program will be developed through a transparent regulatory process that involves charter schools and chartering agencies in the design of the program parameters. Furthermore, the Authority’s application is being supported by multiple charter school stakeholders, as evidenced by their letters of support.</td></tr>
<tr><td rowspan="4">(3) The extent to which the technical assistance and other services to be provided by the proposed grant project involve the use of cost-effective strategies for increasing charter schools’ access to facilities financing, including the reasonableness of fees and lending terms; and</td><td>→ A.II. Proposed Preliminary Terms of the CSFCE Grant Program</td></tr>
<tr><td>→ A.III. Anticipated Benefits of the CSFCE Grant Program</td></tr>
<tr><td>→ C.I. California School Finance Authority</td></tr>
<tr><td>→ C.IV. Stakeholders and Advisors</td></tr>
<tr><td colspan="2">Criteria (b)(3) Synopsis: The Authority has disbursed over [redacted] in charter school funding since 2002. The level of experience of staff and consultants working with the Authority is extensive. The individuals include experts in finance as well consultants who have been involved in the charter school movement since its inception and are knowledgeable about all aspects of charter schools, including financing, construction, and operating issues, as well as federal and state policies and procedures, and prudent investment, debt, and risk management. The Authority and its team members consistently demonstrate success in lowering costs to charter schools, and ensuring fees and terms are reasonable and more cost-effective than alternative facilities financing available to the charter schools absent the Authority’s credit enhancement programs.</td></tr>
<tr><td rowspan="4">(4) The extent to which the services to be provided by the proposed grant project are focused on assisting charter schools with a likelihood of success and the greatest demonstrated need for assistance under the program.</td><td>→ A.I. Proposed Use of Credit Enhancement Grant Funds</td></tr>
<tr><td>→ A.II. Proposed Preliminary Terms of the CSFCE Grant Program</td></tr>
<tr><td>→ A.III. Anticipated Benefits of the CSFCE Grant Program</td></tr>
<tr><td>→ A.IV. Anticipated Performance Measures (Exhibit A.2)</td></tr>
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<tr><td colspan="2">Criteria (b)(4) Synopsis: The anticipated performance measures for the program will be structured to track the CSFCE Grant Program’s success at achieving the desired outcomes and benefits:

- Meet Demonstrated Need
- Provide a Cost-effective Program
- Serve Charter Schools with a Likelihood of Success
- Serve High-need Charter Schools

Details for the Authority’s typical criteria for assessing a charter school’s likelihood of success are described in part A.IV. (Exhibit A.2). See also the Criteria (c)(4) Synopsis, below. It also is anticipated that the updated CSFCE Grant Program regulations will recognize the importance of school choice for schools that are located in or near an area where a large proportion of schools are: 1) identified for program improvement, corrective action or restructuring; 2) serving students performing below proficient on state testing; and 3) serving low-income students.</td></tr>
<tr><td colspan="2"><u>(c) Capacity</u></td></tr>
<tr><td rowspan="3">(1) The amount and quality of experience of the applicant in carrying out the activities it proposes to undertake in its application, such as enhancing the credit on debt issuances, guaranteeing leases, and facilitating financing;</td><td>→ C.I. California School Finance Authority</td></tr>
<tr><td>→ E.I. Authority Background</td></tr>
<tr><td>→ E.II. Management Experience and Track Record with Other Federal Programs</td></tr>
<tr><td colspan="2">Criteria (c)(1) Synopsis: The Authority provides tax-exempt, low-cost financing and credit enhancement to charter schools, school districts, and community college districts for the repair and construction of school facilities, as well as provides working capital financing; these have been the Authority’s primary areas of focus since 2002. The Authority is seeking its fourth federal grant to facilitate the enhancement of debt instruments that will provide much needed funds for the construction and renovation of permanent charter school facilities throughout the State of California.

The Authority’s first grant received from the U.S. Department of Education in 2009 for $[redacted] was used to create the Charter School Facilities Credit Enhancement Grant Program. In 2017, the Authority was awarded another [redacted] grant to create the Project Acceleration Notes and Credit Enhancement Alternatives (PANACEA). In 2019, a third grant was awarded to the Authority, for [redacted] which was used to create the Charter Access Bank Loan Enhancement (Charter ABLE) program. The Authority’s same core team for these prior grants also stands ready to administer the expanded CSFCE Grant Program, assuring that vital institutional knowledge and critical program administrative infrastructure will be employed.</td></tr>
<tr><td rowspan="2">(2) The applicant's financial stability;</td><td>→ E.V. Financial Stability and Financial Statements</td></tr>
<tr><td>→ Attachments I-1, I-2, and I-3</td></tr>
<tr><td colspan="2">Criteria (c)(2) Synopsis: The Authority receives revenues from state and federal sources, as well as generates revenue via bond application and issuance fees. The Authority also receives an annual appropriation from the state legislature to fund program administrative costs to ensure adequate resources. Many of the Authority’s local assistance funds, which are disbursed through its programs, are continuously appropriated through the State's annual budget and without the need for additional legislative approval. As a related entity to the State of California, the Authority is subject to an annual Single Audit. The Authority’s Audited Financial Statements for FY 2019, FY 2020 and FY 2021 can be found as attachments to the application for your consideration. The Authority’s audits are free from any material findings. These audits and are provided as Attachments I-1, I-2, and I-3, respectively.</td></tr>
<tr><td rowspan="2">(3) The ability of the applicant to protect against unwarranted risk in its loan underwriting, portfolio monitoring, and financial management;</td><td>→ A.II. Proposed Preliminary Terms of the CSFCE Grant</td></tr>
<tr><td>→ C.I. California School Finance Authority</td></tr>
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<tr><td></td><td>→ C.III. State Treasurer's Office – Public Finance Division
→ E.I. Authority Background</td></tr>
<tr><td colspan="2">Criteria (c)(3) Synopsis: As an experienced lender and program manager for charter school financing programs, the Authority has robust policies and procedures to assess and mitigate risk, while still extending financing to charter schools that otherwise may face obstacles in obtaining financing at reasonable costs and terms from other sources. The Authority is adept at analyzing the financial soundness of charter schools, having undertaken these activities since 2002. The financing, policymaking, portfolio monitoring, financial management and risk mitigation expertise of the Authority and its team will ensure administration of the federal credit enhancement grant is consistent with prudent financial management, as well as federal guidelines and policy objectives.</td></tr>
<tr><td>(4) The applicant's expertise in education to evaluate the likelihood of success of a charter school;</td><td>→ E.I. Authority Background</td></tr>
<tr><td colspan="2">Criteria (c)(4) Synopsis: The Authority is adept at analyzing the financial soundness of charter schools, having undertaken these activities since 2002. Its criteria typically includes, among others: At least two academic years of instructional operations of a charter school or evidence of its educational plan, financial resources, facilities expertise, and management expertise; Management expertise of at least two academic years by key personnel (e.g., Chief Executive Officer, President, Operations Manager, Chief Financial Officer, Principal, etc.); Evidence the charter school has complied with the terms of its charter agreement and is in good standing with its Chartering Authority; Evidence the Charter School is in not in imminent danger of having its charter revoked or not renewed; Evidence the Applicant's or Obligor's audited financial statements are free of material exceptions and "going concern" issues; and Evidence the financial results and projections demonstrate the Applicant's or Obligor's ability to operate at least on a break-even basis.</td></tr>
<tr><td>(5) The ability of the applicant to prevent conflicts of interest, including conflicts of interest by employees and members of the board of directors in a decision- making role;</td><td>→ E.I. Authority Background
→ E.III. Standards of Conduct
→ Attachment G – State Political Reform Act</td></tr>
<tr><td colspan="2">Criteria (c)(5) Synopsis: As stewards of state and federal funds, the Authority and its management personnel must comply with the State's Political Reform Act, which requires that all governmental officials involved in governmental decision-making must disclose all sources of income, investments, and gifts and prohibits such officials from participating in, making, or attempting to influence decisions in which they have a financial interest.</td></tr>
<tr><td>(6) If the applicant has co-applicants (consortium members), partners, or other grant project participants, the specific resources to be contributed by each co-applicant (consortium member), partner, or other grant project participant to the implementation and success of the grant project</td><td>→ C.II. The California State Attorney General's Office
→ C.III. State Treasurer's Office – Public Finance Division
→ C.IV. Stakeholders and Advisors</td></tr>
<tr><td colspan="2">Criteria (c)(6) Synopsis: The Authority will work closely with multiple offices of the State of California, and be supported for specific services by the identified stakeholders and advisors described in the application. The selected team members have worked together previously on comparable programs.</td></tr>
<tr><td>(7) For State governmental entities, the extent to which steps have been or will be taken to ensure that charter schools within the State receive the funding needed to obtain adequate facilities; and</td><td>→ C.I. California School Finance Authority
→ E.I. Authority Background
→ F.I. General Funding of Charter Schools in California
→ F.II. Facility Funding of Charter Schools in California</td></tr>
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Criteria (c)(7) Synopsis: The State Legislature and the voters of California have adopted/endorsed a multi-faceted approach to assist charter schools in meeting their facilities needs in the form of grant, loan, and bond financing programs. These programs, most of which involve the Authority in their administration, are described in part F.II. Notwithstanding these comprehensive commitments, most of these programs have traditionally been oversubscribed, and charter schools in California continue to face significant hurdles to securing facilities.	
(8) For previous grantees under the charter school facilities programs, their performance in implementing these grants.	→ E.II. Management Experience and Track Record with Other Federal Programs → Attachment F – Performance Report
[redacted]	
<u>(d) Quality of project personnel.</u>	
(1) The qualifications of project personnel, including relevant training and experience of the project manager and other members of the project team, including consultants or subcontractors; and	→ C.I. California School Finance Authority → C.II. The California State Attorney General's Office → C.III State Treasurer's Office – Public Finance Division → C.IV. Stakeholders and Advisors
Criteria (d)(1) Synopsis: The level of experience of staff and consultants working with the Authority is extensive. The individuals include experts in finance as well consultants who have been involved in the charter school movement since its inception and are knowledgeable about all aspects of charter schools, including financing, construction, and operating issues, as well as federal and state policies and procedures, and prudent investment, debt, and risk management. The principal Authority and STO staff members who will be working on this program each have 10 – 20 years of experience, are familiar with education finance, charter school facilities, and charter school policy issues, in general, as well as financial management, portfolio monitoring, investment of public funds, and risk mitigation processes and practices.	
(2) The staffing plan for the grant project .	→ B. Involvement of Charter Schools → C.I. California School Finance Authority → C.II. The California State Attorney General's Office

	→ C.III State Treasurer's Office – Public Finance Division
	→ C.IV. Stakeholders and Advisors

Criteria (d)(2) Synopsis: The Authority's Project Staffing and Implementation Plan builds on its successful establishment of four prior CE grant programs, with the same core team also ready to administer the expanded CSFCE Grant Program. Therefore, implementation of the program will be expedited, with additional funds from the CSFCE Grant Program anticipated to be disbursed by summer 2024, assuming a fall 2023 award notification. As an early step Authority staff will focus its primary attention on program regulations and charter community outreach regarding the new program. See *Part B. Involvement of Charter Schools*, for additional details of collaboration plans.