

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)
CONDUIT 501 (c)(3) REVENUE BOND FINANCING**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	WFCS Holdings, LLC (“Borrower” or “WFCS”)	Par Amount Requested:	Not to exceed \$185,000,000
Applicant Description:	The Borrower is organized as a Minnesota Limited Liability Company formed on October 4, 2019, with the purpose of acquiring public charter schools and/or headquarters. The Borrower’s sole member is Wonderful Foundations (“Foundations”), Borrower’s “Representative”, an Oregon nonprofit 501(c)(3) corporation established on October 28, 2018.		
Type of Financing:	Conduit Tax Exempt and Taxable Fixed Rate Bonds (“Bonds”)		
Project Description:	The proceeds of the Bonds will be used to (1) finance the acquisition of public charter school facilities and also improvements to certain of these facilities as follows: (i) Amethod Public Schools, Inc. (Benito Juarez Elementary, Richmond Charter Academy, and John Henry High School), Contra Costa County (ii) Rex and Margaret Fortune School of Education (Hardy Brown College Prep), San Bernardino County, (iii) Lifelong Learning Administrative Corporation (corporate headquarters), Los Angeles County (iv) Real Journey Academies, Inc. (Excel Prep Elementary School), Riverside County and (v) Inspire Charter Schools, Inc. (corporate headquarters), Riverside County (together, the “2020 Projects”), (2) pay capitalized interest on the Bonds, (3) fund a debt service reserve fund and a repair and replacement fund with respect to the 2020 Projects, and (4) pay certain costs of issuance of the Bonds.		
Project Sites:	<p>Contra Costa County: 1402 Marina Way South Point, Richmond, CA 94804 1450 Marina Way South Point, Richmond, CA 94804</p> <p>San Bernardino County: 655 West 2nd Street, San Bernardino, CA 92415</p> <p>Los Angeles County: 177 Holston Drive, Lancaster, CA 93535</p> <p>Riverside County: 25560 Alessandro Boulevard, Moreno Valley, CA 92553 43517 Ridge Park Drive, Temecula, CA 92590</p>		
Plan of Finance:	IBank will lend the proceeds of the Bonds to WFSC to finance the costs of the 2020 Projects, pay capitalized interest, fund a debt service reserve, a repair and replacement fund, and pay issuance costs.		
Type of Issue:	Limited Offering		
Tax Status:	Tax Exempt and Taxable		
Term:	July 1, 2060		
Credit Enhancement:	None		
Credit Rating:	Not Applicable		
IBank Fees:	Application Fee \$4,000; Issuance Fee \$100,000; Initial Annual Fee \$3,000 per year		
STO Fees:	Agent For Sale \$10,000 to be paid by the Borrower to STO		

Estimated Sources of Funds: Tax-exempt and Taxable Bond Proceeds of: Senior Bonds Subordinate Bonds Original Issue Discount			Estimated Uses of Funds:
	\$143,585,000		Real Estate Acquisition (Senior Bonds) \$118,585,000
	\$41,415,000		Real Estate Acquisition (Subordinate Bonds) \$41,415,000
	(\$11,200,000)		Debt Service Reserve Fund \$8,700,000
			Costs of Issuance \$1,400,000
			Underwriter's Discount \$3,700,000
TOTAL SOURCES		\$173,800,000	TOTAL USES
			\$173,800,000
Financing Team:			
Bond Counsel:		Orrick, Herrington & Sutcliffe LLP	
Servicer/Investor:		Charter School Capital	
Underwriter:		Citigroup	
Underwriter Counsel:		Nixon Peabody	
Trustee:		Wilmington Trust, N.A.	
Agent for Sale:		State Treasurer's Office	
Public Benefits:	<p>This financing will allow the Borrower to purchase the 2020 Projects from their current owner and lease them back to the respective charter schools at a rental rate equal to annual debt service on the Bonds. The Borrower relates that the schools currently face regular rent escalation and that by leasing to the schools at a rental rate equal to annual debt service, the schools will each be insulated from rent escalation. This will ultimately result in lower rental costs for the schools, thereby allowing the schools to focus additional resources in their primary educational mission. Additionally, this financing should also allow the various schools to become owners instead of renters. The Borrower plans to gift the 2020 Projects to the respective schools once the Bonds are repaid, so long as the schools remain in occupancy, are current on their rent, and meet certain covenants necessary for the gift to occur. Although this will happen in the future, it will be a significant benefit to the individual schools. Also, the Borrower will establish a maintenance reserve fund that will help the schools with the costs of maintaining the premises. This should reduce some of the schools' burdens associated with holding property allow them to focus more efforts on their educational mission.</p>		
Date of Board Meeting: April 22, 2020		Resolution Number: 20-04	Prepared by: John Belmont on 3/5/2020
Staff Recommendation: Staff recommends approval of Resolution No. 20-04 authorizing the issuance of Conduit Tax Exempt and Taxable Fixed Rate Bonds in an aggregate amount not to exceed \$185,000,000, for the benefit of WFCS Holdings, LLC.			

BACKGROUND AND HISTORY

Background and History:

WFCS Holdings, LLC (“Borrower” or “WFCS”) is organized as a Minnesota Limited Liability Company formed on October 4, 2019, with the purpose of acquiring public charter schools and/or headquarters. The Borrower is a single purpose entity. Its sole member and “Representative” is Wonderful Foundations (“Foundations”), an Oregon nonprofit 501(c)(3) corporation, established on October 28, 2018, for charitable, scientific, and education purposes. Foundations and Borrower will assist charter schools to gain access to capital financing through tax-exempt bonds and charitable grants, for leveraging efficiencies and pool risk to reduce overall costs of securing facilities, equipment and other capital investments. Foundations and Borrower will offer technical assistance to improve the schools operations, develop new and innovative education methods, achieve public education goals, and provide grants to public charter schools to support innovative programs.

The Borrower will use the funds to acquire school sites, and then lease the sites to the charter schools, and eventually transfer fee simple title to the charter schools after the bonds debt service is repaid. The Borrower intends to purchase school properties owned by American Education Properties, LLC (“AEP”) and become the fee simple owner of the charter schools. AEP is a for-profit company with a portfolio of 30 charter schools nationwide. The Borrower plans to purchase the portfolio and lease the facilities to the charter schools under the existing leases and expects to renew the leases with those same schools in order to repay the financing.

One of the charter schools, John Henry High School in Richmond, CA, is currently waiting for their charter renewal. If the school does not secure the renewal, then this property will be removed from the bond pool.

The Oregon Secretary of State reports active status for the Foundations. The Office of the Minnesota Secretary of State reports a Certificate of Good Standing for WFCS Holdings, LLC.

Current leadership is listed in Appendix A.

PROJECT DESCRIPTION

The Borrower is requesting the issuance of conduit tax-exempt fixed rate revenue bonds (the “Bonds”) to finance (1) acquisition of public charter school facilities as follows: (i) Amethod Public Schools, Inc. (John Henry High School and Benito Juarez Elementary, Richmond Charter Academy), 1402 and 1450 Marina Way South Point, Richmond, CA, (ii) Rex and Margaret Fortune School of Education (Hardy Brown College Prep), 655 West 2nd St, San Bernardino, CA, (iii) Lifelong Learning Administrative Corporation (corporate headquarters), 177 Holston Dr., Lancaster, CA, (iv) Real Journey Academies, Inc. (Excel Prep Elementary School), 25560 Alessandro Blvd, Moreno Valley, CA, and (v) Inspire Charter Schools, Inc. (corporate headquarters), 43517 Ridge Park Dr., Temecula, CA, (together, the “Projects”), (2)

pay capitalized interest on the Bonds, (3) fund a debt service reserve fund and a repair and replacement fund with respect to the Bonds, (4) pay certain costs of issuance of the Bonds .

School Project Locations

School Loans Portfolio	Number of Students As of December 31, 2019	Facility Value
1. Richmond Charter Academy/ Benito Juarez Elementary 1450 Marina Way South Point, Richmond, CA 94804	690	\$72,000,000
2. John Henry High School 1402 Marina Way, South Point, Richmond, CA 94804	320	
3. Desert Sands Public Charter & Antelope Valley Learning Academy 177 Holston Dr., Lancaster, CA 93535	N/A (Corp. Headquarters)	\$32,000,000
4. Excel Prep Elementary 25560 Alessandro Blvd., Moreno Valley, CA 92553	560	\$16,000,000
5. Inspire Charter Schools 43517 Ridge Park Dr., Temecula, CA 92590	N/A (Corp. Headquarters)	\$3,000,000
6. Hardy Brown College Prep (Fortune) 655 West 2 nd St., San Bernardino, CA 92415	374	\$36,000,000
	Total	\$159,000,000

(See Appendix B--Project Photos).

FINANCING STRUCTURE

IBank Term Sheet WFCS Holdings, LLC Board Meeting Date: 4/22/2020

Par Amount:	Not to exceed \$185,000,000 in conduit Tax Exempt and Taxable Fixed Rate Bonds.
Type of Offering:	Limited Offering
Lender/Underwriter:	Citigroup Global Markets Inc.
Credit Enhancement:	N/A
Expected Credit Rating:	N/A
Interest Rate*:	Coupon rates expected to range between 4% and 8%, depending on maturity and lien position, under no circumstances will rate exceed 12%
Maturity*:	July 1, 2060
Collateral:	The Company Loan will be secured by Obligation No. 2A, issued pursuant to Supplemental Master Indenture for Senior Obligation No. 2A among the Company, as Borrower, Wonderful Foundations, as Borrower Representative, and Wilmington Trust, National Association, as Master Trustee, Obligation No. 2B, issued pursuant to Supplemental Master Indenture for Subordinate Obligation No. 2B among the Company, as Borrower, Wonderful Foundations, as Borrower Representative, and Wilmington Trust, National Association, as Master Trustee, and Obligation No. 2C, issued pursuant to Supplemental Master Indenture for Junior Obligation No. 2C among the Company, as Borrower, Wonderful Foundations, as Borrower Representative, and Wilmington Trust, National Association, as Master Trustee.
Expected Closing Date*:	May 31, 2020
Conduit Transaction:	The Bonds are special, limited obligations payable solely from payments made by the Borrower under the transaction documents and IBank shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank for all or any portion of payment to be made pursuant to the Bonds.

*Please note that Interest Rate, Maturity, and Expected Closing Date are subject to change.

FINANCING STRUCTURE

The Bonds will be secured by an Indenture and sold through a limited offering pursuant to a Bond Purchase Agreement. The proceeds of the Bonds will be loaned to the Borrower pursuant to a Loan Agreement. The Bonds are issuable as fully registered Bonds in denominations of \$100,000 and any integral multiple thereof. The Bonds and beneficial ownership interests will be offered only to “Qualified Institutional Buyers.”

The Bonds are expected to be structured in 3 series of bonds: the “Series 2020A-1 as the Senior Tax-Exempt Bonds, Series 2020A-2 as the Senior Taxable Bonds, and Series 2020B as the Subordinate Revenue Bonds, (together, the “Bonds”), the net proceeds of which will be loaned to the Borrower for the purpose of acquiring the 2020 Projects, paying costs of issuance of the Bonds and funding certain reserves. If a portion of the Bonds remained unsold, IBank will simultaneously issue the Series 2020C Bonds as the Junior Bonds. The Junior Bonds will be structured as term bonds and will be secured by a pledge of the WSFC’s gross revenues under the Master Trust Indenture and by mortgage liens on and security interests in the facilities pursuant the related bond documents.

The Senior Bonds will be current interest bonds, which are expected to pay interest semi-annually. The Subordinate Revenue Bonds will be Capital Appreciation Bonds (“CABs”). Interest on the CABs is expected to be compounded from the closing date and accruing in equal daily amounts between defined compounding dates, and payable at maturity or earlier redemption date. The Subordinate Bonds are not subject to mandatory redemption. The Junior Bonds would be CABs and would not be subject to optional or mandatory redemption, but would be subject to extraordinary redemption.

Limited Obligations of IBank

The Bonds are payable solely from and secured solely by the pledge of the Borrower’s payments under the transaction documents. Neither IBank; nor any of the members of its Board of Directors; nor any of its officers or employees; nor any person executing the transaction documents on behalf of IBank shall be personally liable for the Bonds or subject to any personal liability or accountability by reason of the execution thereof. The Bonds are limited obligations of IBank and are not a pledge of the faith and credit of IBank or the State of California or any of its political subdivisions.

PUBLIC BENEFITS

This financing will allow the Borrower to purchase the 2020 Projects from their current owner and lease them back to the respective charter schools at a rental rate equal to annual debt service on the Bonds. The Borrower relates that the schools currently face regular rent escalation and that by leasing to the schools at a rental rate equal to annual debt service, the schools will each be insulated from rent escalation. This will ultimately result in lower rental costs for the schools, thereby allowing the schools to focus additional resources in their primary educational mission. Additionally, this financing should also allow the various schools to become owners instead of renters. The Borrower plans to gift the 2020 Projects to the respective schools once the Bonds are repaid, so long as the schools remain in occupancy, are current on their rent, and meet certain covenants necessary for the gift to occur. Although this will happen in the future, it will be a significant benefit to the individual schools. In addition, the Borrower will establish a maintenance reserve fund that will help the schools

with the costs of maintaining the premises. This should reduce some of the schools' burdens associated with holding property allow them to focus more efforts on their educational mission.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe: All approvals have been obtained.
TEFRA	
Date of TEFRA Publication:	4/15/2020
Publications:	<i>The Daily Recorder, the Press-Enterprise, the West County Times, Antelope Valley Press, and San Bernardino Sun</i>
Date of TEFRA Hearing:	4/22/2020
Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Applicant meets all of the IBank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. The Borrower is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by the Borrower to IBank under the proposed financing agreements are adequate to pay the current expenses of the IBank in connection with the financing and to make all the scheduled payments. See Appendix C for Financial Statements. 4. The proposed financing is appropriate for the Project.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution No. 20-04 authorizing the issuance of Conduit Tax Exempt and Taxable Fixed Rate Bonds in an aggregate amount not to exceed \$185,000,000, for the benefit of WFCS Holdings, LLC.

APPENDIX A: GOVERNANCE AND MANAGEMENT

BOARD OF DIRECTORS WONDERFUL FOUNDATIONS

Troy Snyder, Chair; Director	Portland, OR
Darlene Chambers, President; Director	Portland, OR
John Cairns, Secretary; Director	Attorney Minneapolis, MN
Art Pavlenko, Treasurer; Director	Owner Enko Properties Portland, OR
Eric Knox, Director	Founder Holla Foundation Portland, OR

APPENDIX B: PROJECT PHOTOS

1450 Amethod



Alessandro Facility



APPENDIX C: FINANCIAL STATEMENTS 2017 – 2019

Three years Financial Statements from Charter Schools

Amethod Public Schools
REAL Journey Academies
Rex and Margaret Fortune School of Education