

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	WFCS Holdings II, LLC (“Borrower” or “WFCS II”)	Par Amount Requested:	Not to exceed \$100,000,000
Applicant Description:	The Borrower was formed as a Minnesota Limited Liability Company for the purpose of acquiring public charter schools facilities. The Borrower’s sole member is Wonderful Foundations (“Foundations”), an Oregon nonprofit 501(c)(3) corporation. The Borrower is a “disregarded entity” for tax purposes and so inherits the tax status of Foundations.		
Type of Financing:	Conduit Tax-Exempt and/or Taxable Fixed Rate Bonds (“Bonds”)		
Project Description:	The Borrower is requesting the issuance of conduit tax-exempt and/or taxable fixed rate revenue bonds (“Bonds”) to finance (1) the acquisition of some or all of the following public charter school facilities: John Henry High School; Desert Sands Public Charter and Antelope Valley Learning Academy; Hardy Brown College Prep ¹ (together, the “Facilities”), (2) finance improvements to certain of those Facilities, (3) fund a debt service reserve, and (4) pay costs of issuing the Bonds (collectively, the “Project”).		
Project Site:	<p>Contra Costa County 1402 Marina Way, South Point, Richmond, CA 94804</p> <p>Los Angeles County 177 Holston Drive, Lancaster, CA 93535</p> <p>San Bernardino County 655 West 2nd Street, San Bernardino, CA 92415</p>		
Plan of Finance:	IBank will lend the proceeds of the Bonds to WFCS II to finance the Project.		
Type of Issue:	Limited Offering to qualified institutional buyers		
Tax Status:	Tax-Exempt and/or Taxable		
Term:	Up to December 1, 2061		
Credit Enhancement:	None		
Credit Rating:	Unrated		
IBank Fees:	Application Fee \$3,500; Issuance Fee \$75,000; Initial Annual Fee \$3,000 per year (all based on the requested par amount)		
STO Fees:	Agent For Sale \$8,000 to be paid by the Borrower to STO		
Estimated Sources of Funds:		Estimated Uses of Funds:	
Tax-exempt and Taxable Bonds Proceeds:		Acquisition of Facilities:	
Tax-exempt Bonds	\$72,654,777	Senior Lien Proceeds ²	\$66,766,560
Tax-exempt Capital Appreciation Bonds	\$25,629,399	Subordinate Lien Proceeds	\$25,629,399
Taxable Bonds	\$1,150,450	Debt Service Reserve Fund	\$4,464,898
Premium	\$565,374	Costs of Issuance	\$3,139,143
TOTAL SOURCES	\$100,000,000	TOTAL USES	\$100,000,000

¹ Per Bond Counsel, the Hardy Brown College Prep school is located in a building leased currently to both the school and the Judicial Council of California (the “Judicial Counsel”). The Judicial Council is an organization that would not be eligible for tax-exempt financing, however, because the Borrower’s/Foundations’ nonprofit purpose does not include the Judicial Council’s activities, the portion of the building allocable to the Judicial Council would be financed with taxable bond proceeds.

² The Borrower has also requested IBank seek authorization to issue a junior series of Bonds on the Borrower’s behalf. Junior bonds will be issued only if sufficient funds are not raised by the sale of senior and subordinate Bonds. If junior bonds are issued the aggregate Bond par amount of senior, subordinate, and junior Bonds will not exceed \$100 Million.

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:	The financing will allow the Borrower purchase some or all of the Facilities 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. The Borrower plans to gift the Facilities 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 is a conditional future event, if it occurs 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.		
Date of Board Meeting: October 28, 2020		Resolution Number: 20-20	Prepared by: Steven Wright on 10/2/2020
Staff Recommendation: Staff recommends approval of Resolution No. 20-20 authorizing the issuance of Conduit Tax-Exempt and/or Taxable Fixed Rate Bonds in an aggregate amount not to exceed \$100,000,000, for the benefit of WFCS Holdings II, LLC.			

BACKGROUND AND HISTORY

Background and History:

The Borrower was formed as a Minnesota Limited Liability Company September 23, 2020. The Borrower was formed for the purpose of acquiring public charter school facilities. The Borrower is a single purpose entity. Foundations is the Borrower's sole member and was formed as a 501(c)(3) Oregon non-profit corporation on October 28, 2018. For federal tax purposes, the Borrower is a "disregarded entity" and so holds the same tax-status as its sole member, Foundations. Foundations' recognition as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code is based on its mission to assist public charter schools in various ways, specifically including undertaking the Project (and other similar projects) through the Borrower. Among other activities benefitting public charter schools, Foundations plans to serve as a central hub through which charter schools can access capital financing through tax-exempt bonds and charitable grants, leverage efficiencies, and pool risk to reduce the overall costs of securing facilities, equipment and other capital investments..

The Borrower will use the Bonds proceeds to acquire some or all of the Facilities, and then lease them to the charter schools, and intends eventually to transfer fee simple title to the charter schools after the Bonds' debt service is repaid. The Borrower intends to purchase these Facilities from American Education Properties, LLC ("AEP") and become the fee simple owner of the Facilities purchased. AEP is a for-profit company with a portfolio of charter schools nationwide. The Borrower plans to purchase the portfolio and lease the Facilities acquired to the charter schools under the existing leases and expects to renew the leases with those same schools in order to repay the financing.

The IBank Board approved Resolution No. 20-04 on April 22, 2020 for the issuance of \$185,000,000 tax-exempt Bonds, Wonderful Foundations Charter Portfolio Projects, for the benefit of the WFCS Holdings, LLC (the "First 2020 Bonds"). The First 2020 Bonds were issued on July 30, 2020. WFCS Holdings, LLC, initially intended to finance the Facilities with the First 2020 Bonds. The First 2020 Bonds' TEFRA Notice was published on April 15, 2020, which then followed by the TEFRA Hearing on April 22, 2020. The TEFRA documents included the Facilities in the list of items to be financed by an IBank conduit bond issuance. Ultimately, the First 2020 Bonds were not issued in an amount sufficient to finance the Facilities. The TEFRA Public Approval Certificate for the Facilities is still active. As a result, no additional TEFRA process is required for the Facilities.

The California Secretary of State reports active status for the Borrower. Current leadership is listed in Appendix A.

PROJECT DESCRIPTION

The Borrower requests that IBank issue the Bonds to finance the Project (which includes acquisition of some or all of the Facilities, see above).

Charter School Facilities Location

Charter Schools Portfolio	Number of Students as of June 30, 2020	Facility Value
John Henry High School (1402 Amethod) 1402 Marina Way, South Point Richmond, CA 94804	300	\$21,312,000
Desert Sands Public Charter & Antelope Valley Learning Academy (Holston) 177 Holston Drive Lancaster, CA 93535	N/A	\$31,634,649
Hardy Brown College Prep (Fortune) 655 West 2nd St San Bernardino, CA 92415	367	\$35,244,772

Hardy Brown College Prep Pending Litigation

The current owner of the Hardy Brown College Prep building is currently involved in litigation with an adjoining landowner over the location of a trash enclosure. The Borrower assesses the amount in controversy to be relatively minor, on the order of \$100,000 to \$200,000. If the Borrower acquires this building, it will inherit the litigation. If the Borrower acquires this building, it intends to reserve funds well in excess of the estimated amount in controversy in order to resolve the litigation.

(See Appendix B--Project Photos).

FINANCING STRUCTURE

IBank Term Sheet

WFCS Holdings II, LLC

Board Meeting Date: 10/28/2020

Par Amount:	Not to exceed \$100,000,000 in conduit Tax-Exempt and/or Taxable Fixed Rate Bonds
Type of Offering:	Limited Offering to qualified institutional buyers
Underwriter:	Citigroup Global Markets Inc.
Credit Enhancement:	N/A
Expected Credit Rating:	Unrated
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*:	Up to December 1, 2061
Collateral:	Repayment of the Bonds will be secured by up to three separate Obligations issued pursuant to up to three separate Supplemental Master Indentures among the Borrower, Foundations, and Wilmington Trust, National Association, as Master Trustee.
Expected Closing Date*:	December 22, 2020
Conduit Transaction:	The Bonds are special, limited obligations payable solely from payments made by the Borrower under the transaction documents and from funds and accounts established under the transaction documents and IBank shall not be directly or indirectly or contingently or morally obligated to use any moneys or assets of IBank for all or any portion of payment to be made pursuant to the Bonds.

*Please note that Interest Rate and 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 minimum denominations of \$100,000 and any integral multiples of \$5,000 in excess thereof. The Bonds and beneficial ownership interests will be offered only to qualified institutional buyers within the meaning of SEC Rule 144A, pursuant to IBank's conduit bond issuance policy.

The Bonds are expected to be designated as: the California Infrastructure and Economic Development Bank Senior Revenue Bonds, Series 2020A-1 (Wonderful Foundations Charter School Portfolio Projects), the California Infrastructure and Economic Development Bank Senior Revenue Bonds, Series 2020A-2 (Wonderful Foundations Charter School Portfolio Projects) (Taxable), and the California Infrastructure and Economic Development Bank Subordinate Revenue Bonds, Series 2020B (Wonderful Foundations Charter School Portfolio Projects), (together, as previously defined, the "Bonds"), the net proceeds of which will be loaned to the Borrower for the purpose of acquiring the Facilities, funding certain reserves, and paying costs of issuance of the Bonds. The Series 2020B Bonds would be subordinate to the Series 2020A-1 and A-2 Bonds. If a portion of the Bonds remained unsold, the Borrower has requested that IBank simultaneously issue Junior Bonds designated as the California Infrastructure and Economic Development Bank Junior Revenue Bonds, Series 2020C (Wonderful Foundations Charter School Portfolio Projects) (the "Junior Bonds"). The Junior Bonds would be structured as term bonds and will be secured by a pledge of the WSFC II'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 Junior Bonds would be subordinate to the Bonds.

The Series 2020A-1 and A-2 Bonds will be current interest bonds, which are expected to pay interest semi-annually every January 1 and July 1. The Series 2020B 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.

A portion of the Senior Taxable Series 2020A-2 Bonds proceeds will be used to pay costs that do not qualify for tax-exempt bonds. As advised by Bond Counsel, Hardy Brown College Prep is located in a building shared with the Judicial Council of California (the "Judicial Council"). Both entities lease a portion of the building. The Judicial Council is an entity that would in and of itself be eligible for tax-exempt financing. However, because the Foundation would purchase the entire building, and because the Foundations' purpose does not cover the Judicial Council's activities, the portion of the building allocable to the Judicial Council's activities would be outside the Foundations' nonprofit purpose and so would have to be financed with taxable Bond proceeds. Accordingly, one use of the proceeds of the 2020A-2 Bonds could be to finance the portion of the building allocable to the Judicial Council lease.

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 and from funds and accounts established 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

The financing will allow the Borrower to purchase the Facilities 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. This will ultimately result in lower rental costs for the schools, thereby allowing the schools to focus additional resources in their primary educational mission. The Borrower plans to gift the Facilities 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 is a conditional future event, if it occurs 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 maintenance costs. 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:	N/A
Publications:	N/A
Date of TEFRA Hearing:	N/A
Oral/Written Comments:	N/A
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. 20-20 authorizing the issuance of Conduit Tax-Exempt and/or Taxable Fixed Rate Bonds in an aggregate amount not to exceed \$100,000,000, for the benefit of WFCS Holdings II, 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	Portland, OR
Art Pavlenko, Treasurer, Director	Portland, OR
Eric Knox, Director	Portland, OR

APPENDIX B: PROJECT PHOTOS



John Henry High School



Fortune School



Desert Sands Public Charter & Antelope Valley Learning Academy