



September 22, 2021

**Our History:** Equitable Facilities Fund (EFF) is a nonprofit social impact fund founded in 2017 to help proven, high-performing, high-impact public charter schools maximize their resources for students. EFF's purpose is to 1) make it easier and less expensive for charter schools to put down roots in permanent facilities, and 2) create a pooled, transparent, enhanced credit structure that allows high-grade investors to access the charter school sector. We believe all quality public schools deserve facilities capital under long-term, low-yield, high-credit, and transparent terms. EFF created the Equitable School Revolving Fund (ESRF) to hold school loans in a Trust.

**Credit Structure:** ESRF's revolving loan program is modeled after clean water state revolving funds that receive sizable federal grants, pool these grants with hundreds of loans, and issue high-grade tax-exempt bonds to revolve the fund. ESRF has received approximately \$300 million of philanthropic commitments. Like federal grants for state revolving funds philanthropic investment fuels ESRF's 'A' rated credit structure and facilitates access to low-cost capital via the tax-exempt bond market.

**Loan Product:** ESRF borrows at affordable, tax-exempt rates by providing access, pooling, transparency, and credit security to bond investors. The resulting savings transfer to our partner schools through long-term, low-cost school facilities loans. Eventually, like state revolving funds, ESRF aims to provide all quality charter schools access to a pooled, liquid, and high-grade market.

**The Schools:** All of our partner charter schools are non-profits, and have established strong academic and operational track records. Since October 2018, ESRF has committed over \$500 million to charter schools nationwide.

ESRF is poised to recapitalize for a third time in October 2021 via the tax-exempt bond market with an 'A' rating from S&P. Below is a summary of the Revolving Fund and its credit structure:

### **The Bond Issuance**

**Equitable School Revolving Fund** (ESRF) originates and holds high-performing public charter school loans and offers investors an overcollateralized, reserve-funded revolving fund structure. ESRF's senior bonds are designed to withstand a loan default rate of ~47% (assuming ~50% recovery). Note that historic charter sector-wide default rate is ~3% of outstanding par on an annual basis.

### **Successes to Date**

- 'A Stable' rating from S&P for Series 2019, Series 2020, and Series 2021 Bonds.
  - *Note:* S&P's financial analysis supports a "very strong financial risk profile" at the AA level, but the rating was notched down to 'A' given ESRF's "enterprise" is non-governmental. [You can view the S&P Ratings Report here.](#)
- Assembled a team of the nation's foremost charter school, lending, and credit experts.
- Received commitments for \$300 million of non-recourse capitalization grants (~\$250 million funds received to date).
- Committed over \$500 million loans across 16 states to schools serving over 50,000 students.

*Please consider this analysis **illustrative ONLY** and consult the POS for any investment decisions.*

- Earned a “Social Bond” designation from Kestrel Verifiers for Series 2019, Series 2020, and Series 2021 Bonds. [You can read Kestrel’s report here.](#)
- Received recognition as Environmental Finance’s 2021 Social Bond of the Year for the US municipal finance category.

### **Highlights of ESRF’s Credit Structure**

Similar to state revolving funds, all school loans and reserves secure all bond series. ~\$517 million cumulative bonds, including ~\$234 million Series 2021ABCD, will be secured by ~\$696 million in loans<sup>1</sup> plus ~\$23 million reserves.<sup>2</sup> This structure gives investors scalable, ‘A’-rated, high-default-tolerance access to quality charter school paper. The following are some concepts and figures that illustrate the credit strength of ESRF:

#### **I. Over-Collateral and Over-Reserve Credit Structure**

- ALL school loans are pledged to all bonds.
  - This means approximately \$4 in charter school loans pledged for every \$3 in bonds.
  - This is feasible because of ESRF’s ~\$250 million in philanthropic equity.
  - ~\$696 million in loans is pledged to ~\$517 million in bonds.<sup>1</sup>
- In addition to an over-collateralized cash flow, ~\$23 million is held in pledged reserves.

#### **II. Default Tolerance**

- Like a Bond Bank or SRF, bondholders get paid first.
- ESRF’s over-collateralized structure facilitates a **~47% loan default tolerance rate (assuming ~50% loan recovery)**.
- Historically, **approximately 3% of charter school bond par sector-wide has defaulted on an annual basis**. ESRF only lends to schools with strong operating performance, typically the top quartile of schools.

#### **III. ESRF’s Underlying Loans**

- ESRF’s loan portfolio includes some of the nation’s most well-known, long-standing schools.
- Underlying loan security is similar to typical charter school bonds including covenants/disclosure for coverage, days cash on hand, and standard ABTs.
- Average loan diligence timeframe is 6 to 9 months, including loan committee and board review/approval as well as tax diligence.
- ESRF’s periodic disclosure provides borrower names and key credit highlights. ESRF’s portfolio management team owns all surveillance, disclosure, and remediation efforts.
- ESRF is planning annual “school cohort trainings” to share best practices for charter school finance, academics, and operations to maintain and improve the quality of the portfolio.

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<sup>1</sup> Loan and bond amounts reflect original par amounts.

| <b>SUMMARY STATISTICS: EXPECTED ESRF LOAN PORTFOLIO</b>   |               |
|---|---------------|
| Total Pledged Loans <sup>1,2</sup>  | \$696,000,000 |
| Total Series 2019, Series 2020 and Series 2021 Bonds Outstanding <sup>1</sup>   | \$515,055,000 |
| Number of Loans   | 44            |
| Number of School Obligor (Four repeat borrowers)  | 40            |
| Number of School Campuses Associated with Pledged Revenue <sup>1</sup>  | 121           |
| Number of States <sup>1</sup>   | 16            |
| Number of Students Enrolled (SY20-21) <sup>1</sup>  | 53,982        |
| Obligor Total Revenue (FY2020) <sup>1</sup>   | \$778,995,173 |
| <sup>1</sup> Preliminary, subject to change.  |               |
| <sup>2</sup> Includes additional approximately \$175,000,000 of loans approved and expected to close within 180 days of bond closing. |               |

#### IV. Key Terms & Covenants

- ABT of 1.15x Debt Service Coverage for additional Senior Bonds. This means ESRF needs to pledge more loans and/or more equity to issue more bonds.
- Senior DSRF held by Master Trustee for the benefit of all Senior Bonds.
- ESRF may borrow ~\$25 million Subordinate Bonds through this year's issuance.

#### V. Timeline

- September 23: Investor Roadshow @ 3pm ET
- October 5 or 6: Bond Pricing
- October 20: Bond Closing

#### VI. Key Links and Documents

Program Administrator Website: [www.egfund.org](http://www.egfund.org)  
Investor Relations Website: [www.esrfinvestors.org](http://www.esrfinvestors.org)  
Preliminary Official Statement: [View Here](#)  
S&P Ratings Report: [View Here](#)  
Loan Portfolio: [View Here](#)  
Obligor Summaries: [View Here](#)

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